

Estimate change	↔
TP change	↔
Rating change	↔

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	HPCL IN
Bloomberg	
Equity Shares (m)	1,524
M.Cap.(INRb)/(USDb)	326.4 / 4.2
52-Week Range (INR)	329 / 155
1, 6, 12 Rel. Per (%)	6/0/-13
12M Avg Val (INR M)	1478

Financials & Valuations (INR b)

Y/E March	2020	2021E	2022E
Sales	2,691	1,941	2,407
EBITDA	56.6	105.9	126.3
Adj. PAT	36.4	57.4	71.6
Adj. EPS (INR)	23.9	37.7	47.0
EPS Gr. (%)	(45.6)	57.7	24.7
BV/Sh.(INR)	203.3	215.5	230.7

Ratios

Net D:E	0.8	1.0	1.2
RoE (%)	11.9	18.0	21.1
RoCE (%)	12.0	7.9	8.6
Payout (%)	79.8	67.6	67.6

Valuations

P/E (x)	9.0	5.7	4.6
P/BV (x)	1.1	1.0	0.9
EV/EBITDA (x)	12.7	7.4	7.0
Div. Yield (%)	4.6	9.9	12.4
FCF Yield (%)	(33.2)	(16.7)	(16.2)

Shareholding pattern (%)

As On	Mar-20	Dec-19	Mar-19
Promoter	51.1	51.1	0.0
DII	21.7	20.8	17.1
FII	17.7	19.2	18.6
Others	9.5	8.9	64.3

FII Includes depository receipts

CMP: INR214 **TP: INR300 (+40%)** **Buy**

A huge miss on marketing margin; Capex outweigh to continue

- HPCL posted a miss on reported EBITDA due to higher inventory and forex loss. Also, better-than-expected reported GRM counterpoised weaker marketing margins (v/s -17% est., -43% YoY).
- However, refining throughput (-1% YoY) and marketing sales (-5% YoY) were in line with our estimates. The company stated that refinery utilization remains strong, with Vizag at ~100% and Mumbai at ~85%.
- Sales demand (for MS and HSD) has also revived to 82–88% of the normal levels, and the company expects this to reach ~90% by the end of the month.
- Although HPCL's leverage to marketing remains the highest, it is the least preferred in our pecking list due to its high ongoing capex, which would raise its net debt. Additionally, the Vizag expansion, involving a slurry hydrocracker, is expected to face challenges related to execution in FY22 and could hamper its performance/profitability.

Marketing margins were lower than estimated

- Reported EBITDA stood at INR0.7b; while EBITDA adj. for inventory stood at INR41.8b (v/s est. of INR34.2b, +3% YoY).
- Total inventory loss for the quarter stood at INR41.1b (refining at INR25.8b and marketing at INR15.3b).** Thus, core GRM stood at USD9.6/bbl, with inventory loss of USD10.8/bbl.
- HPCL recorded an exceptional item of INR10b on account of the downward revaluation of inventories due to the COVID-19 impact. **The company mentioned that the exceptional item of INR10b is part of inventory G/L, although it may reverse going forward.** This amount translates to USD4.2/bbl of inventory loss (resulting in adj. core GRM of USD5.4/bbl).
- PAT stood at INR0.3b, while adj. PAT (for exceptional) came in at INR10.3b.**
- The company has re-measured its DTL benefits and has thus written back tax of INR15.5b during the quarter, moving to a new lower tax rate.
- After factoring the tax effect and exceptional item, PAT stands at -INR5.2b (v/s est. of INR12.1b; gains of INR29.7b in 4QFY19 and INR7.5b in 3QFY20).

Key operational performance

- Refining:** Throughput was in line with est. at 4.5mmt (-1% YoY, +9% QoQ). Reported GRM stood at -USD1.2/bbl (v/s est. of -USD4.5/bbl; +USD4.5 in 4QFY19 and +USD1.8 in 3QFY20).
- Marketing:** The margin was lower at INR3.7/liter (v/s est. of INR4.4/liter; INR6.4/liter in 4QFY19 and INR4.1/liter in 3QFY20). Marketing sales volumes stood at 9.6mmt (v/s est. of -4%; -5% YoY, -10% QoQ).

FY20 highlights

- Refining throughput was 7% lower YoY at 17.2mmt, with core GRM at USD4.2/bbl v/s USD4.5/bbl in FY19.**
- Marketing sales volumes were up 2% YoY to 39.6mmt, with margins at INR4.0/liter (v/s INR4.3/liter in FY19).**

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- Thus, reported EBITDA stood 50% lower YoY at INR60b, while adj. EBITDA was down 7% YoY to INR102.5b. PBT before the exceptional item was down 72% YoY to INR25.8b, primarily led by higher forex loss and interest cost.
- Reported PAT for the year stood at INR26.4b (v/s INR60.3b in FY19), with adj. PAT for exceptional at INR36.4b in FY20.
- **The company declared final dividend of INR9.75/share.**

Debt increased to INR430b (including Long Term and Short Term debt)

- ST debt was required to compensate for the lower fuel retailing receipts due to lockdown (while payments for crude purchases had to be made).
- **Total debt has already reduced to ~INR360b, and by the end of the month, it should come down further to ~INR320b.**

Capex plan of INR120b for FY21

- **HPCL has capex plans for refinery at INR70b and marketing at INR50b for FY21. The company would continue with ongoing projects, while adopting a cautious stance on new projects.**
- The BS-VI upgrade has been completed at both the Mumbai and Vizag refineries, and expansions are in the advanced stage. The company has also completed the revamp of its current units; thus, it would not require another shutdown to complete the expansions. **Expect the commissioning of both Mumbai and Vizag by mid-2021.**
- Work at the Rajasthan refinery is underway, but capex may see some delay (commissioning expected by 2023).
- **Effective from 20th April, operations have been resumed at all project sights; however, the full workforce is yet to return.**

Valuation and view

- Refining margins are expected to remain weak for a few more months in light of poor global demand growth. Also, the huge discounts enjoyed by the company over Mar–May'20 have been eroded.
- HPCL believes demand is picking up, reflected in the improvement witnessed in product cracks. Even crude prices have seen a jump in prices, led by better-than-expected demand.
- The company expects crude prices to remain at current levels (with global surplus oil inventories to be absorbed first). Thus, expect some inventory gains in the current quarter (i.e., 1QFY21).
- **The company reiterated that on a long-term basis, GRMs would trend at normalized levels. On the other hand, OMCs have begun taking daily retail price hikes, leading to the normalization of gross marketing margins ~INR3/liter (in our model stands at INR3.3).**
- We believe that over the longer term, the normalization of an irrational GRM and marketing margin is likely; we have thus built-in GRM of USD5/6/bbl and blended marketing margin of INR4.5/4.4/liter for FY21/FY22E.
- The stock trades at 4.6x FY22E EPS of INR47 and 0.9x FY21E BV of INR231. The company made a strong dividend payout of ~80% in FY20, with dividend yield at 4.6%. **However, owing to higher capex, FCF generation for the company is forecasted to remain negative.**
- We value HPCL at 1.3x (20% discount to FY15–18 post the reform period, factoring heavy capex and project execution risk) FY22E PBV to arrive at TP of INR300. Maintain **Buy**.

Quarterly performance												(INR m)
Y/E March	FY19				FY20				FY19	FY20	FY20	Var. vs
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4QE	est
Net Sales	676.3	675.2	721.1	679.4	709.9	608.7	707.5	661.5	2,752.0	2,687.6	541.1	22%
YoY Change (%)	26.5	42.1	25.5	11.7	5.0	-9.8	-1.9	-2.6	25.5	-2.3	-20.3	
EBITDA	37.3	30.1	3.7	49.6	14.5	24.5	20.4	0.7	120.7	60.0	4.1	-84%
Margins (%)	5.5	4.5	0.5	7.3	2.0	4.0	2.9	0.1	4.4	2.2	0.8	
EBITDA adj. for inventory and one-offs	14.0	17.3	38.3	40.5	19.9	23.9	16.9	41.8	110.1	102.5	34.2	22%
Depreciation	7.1	7.4	7.4	8.3	8.2	8.1	8.7	8.1	30.1	33.0	9.0	-10%
Forex loss	5.4	8.9	-6.0	-2.0	-1.9	1.2	1.7	7.7	6.2	8.7	14.1	
Interest	1.9	2.0	1.5	1.9	2.1	2.9	2.5	3.4	7.3	10.8	2.8	20%
Other Income	3.1	4.1	3.9	5.2	6.2	3.9	4.1	4.2	16.4	18.4	3.8	13%
PBT before EO expense	26.0	16.0	4.7	46.7	12.4	16.2	11.5	-14.3	93.4	25.8	-18.1	-21%
Extra-Ord expense	0.0	0.0	0.0	0.0	0.0	0.0	0.0	10.0	0.0	10.0	0.0	
PBT	26.0	16.0	4.7	46.7	12.4	16.2	11.5	-24.3	93.4	15.7	-18.1	34%
Tax	8.8	5.0	2.2	17.0	4.3	5.6	4.0	-24.6	33.1	-10.6	-6.0	NM
Rate (%)	33.9	31.6	47.4	36.4	34.6	34.9	35.1	101.1	35.4	-67.7	33.3	
Reported PAT	17.2	10.9	2.5	29.7	8.1	10.5	7.5	0.3	60.3	26.4	-12.1	NM
Adj PAT	17.2	10.9	2.5	29.7	8.1	10.5	7.5	10.3	60.3	36.4	-12.1	NM
YoY Change (%)	85.9	-37.1	-87.3	69.9	-52.8	-3.6	201.8	-65.3	-5.2	-39.6	-140.7	
Key Assumptions												
Refining throughput (mmt)	4.5	4.8	4.6	4.6	3.9	4.6	4.2	4.5	18.4	17.2	4.4	3%
Core GRM (USD/bbl)	3.2	2.7	10.0	2.1	3.3	2.5	1.5	9.6	4.5	4.2	2.0	NM
Marketing sales volume incl exports (mmt)	9.7	9.1	9.7	10.1	10.1	9.4	10.6	9.6	38.7	39.6	9.9	-4%
Marketing GM incld inv (INR/litre)	4.6	4.4	2.0	6.4	3.8	4.5	4.1	3.7	4.3	4.0	4.4	-17%

E: MOFSL Estimates

Current demand snapshot – from management commentary

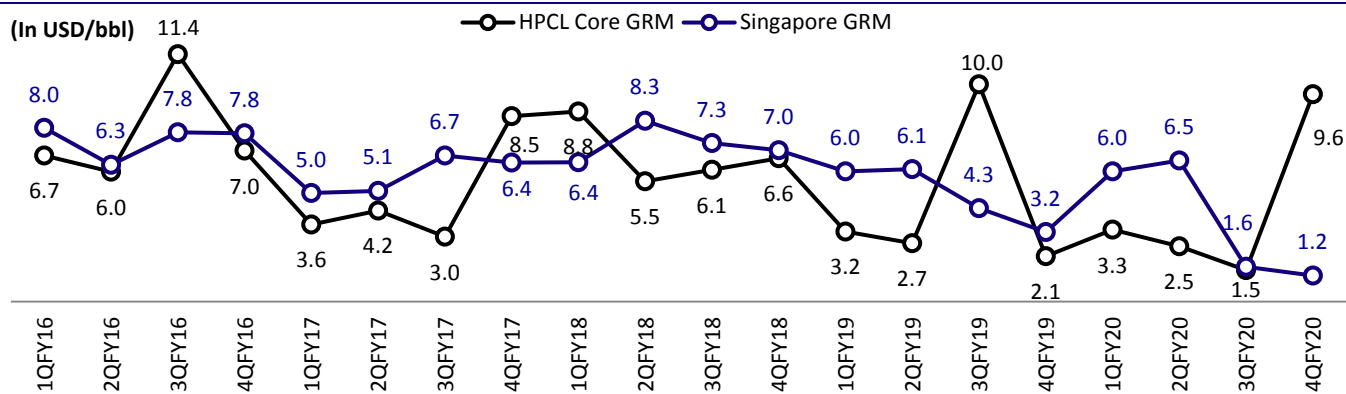
- Currently, demand for MS and HSD has already reached 82–88% of normal levels, **and is expected to reach ~90% by the end of June.**
- ATF demand is yet to pick up, currently at ~30% of normalcy.
- **LPG consumption is ~115% of normal levels**, primarily led by PMUY and higher cooking usage.
- Bitumen and Lubes demand has also picked up (now ~80% of normal levels) as construction/infrastructure and road activities have resumed.
- **Our model was in line with the aforementioned developments, and we have built-in ~7% lower YoY FY21 refining throughput at 16mmt (108% utilization v/s 116% in FY20), factoring HPCL's sales/throughput of 2.3x.**
- **Marketing sales volumes are built 5% lower YoY at 38mmt (v/s our assumption of average 5% YoY volume gains).**

Developments as of 31st Mar'20

- HPCL shifted to a new tax regime of 25.17%.
- It started its first retail outlet in Bhutan and plans to start ~20 ROs in the country (with the state authority).
- It added 1,194 ROs (total ROs: ~16.5k), and 245 LPG distributors (total LPG distributors: ~6,110) in FY20.
- Marketing EBITDA saw a mix of ~15% from lubes, ~15% from pipeline, ~40% from retail, and the rest from others.
- The company now has EV charging facilities at 34 ROs.

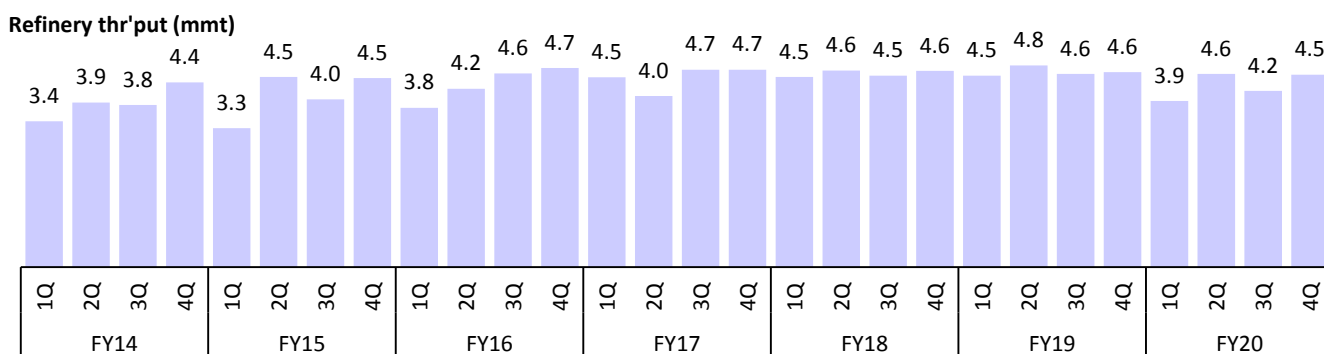
- CNG sales commenced at 476 outlets, and the company has been awarded ~20 GAs by PNGRB.
- HPCL is also participating in a JV for two cross-country pipelines and an LNG terminal at Charra.
- The company completed various projects in FY20 such as: a) the expansion of the Mundra–Delhi (MDPL) pipeline, b) the laying of the Vadodara–Palanpur pipeline and the Uran–Chakan pipeline, c) the commencement of the Vadodara LPG terminal, and d) the resumption/revival of five to six LPG plants.

Exhibit 1: Core GRM at USD9.55/bbl v/s Singapore GRM at USD1.2/bbl



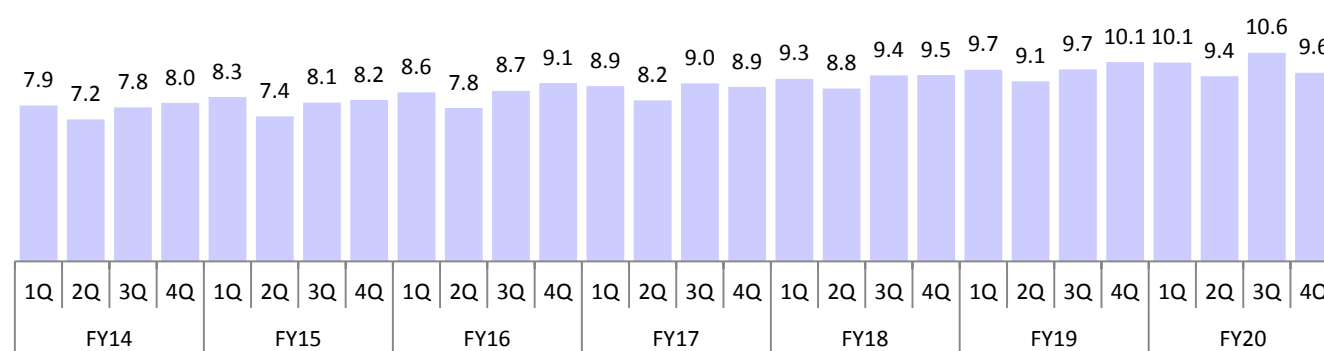
Source: Company, MOFSL

Exhibit 2: Throughput at 4.5mmt, down 1.3% YoY



Source: Company, MOFSL

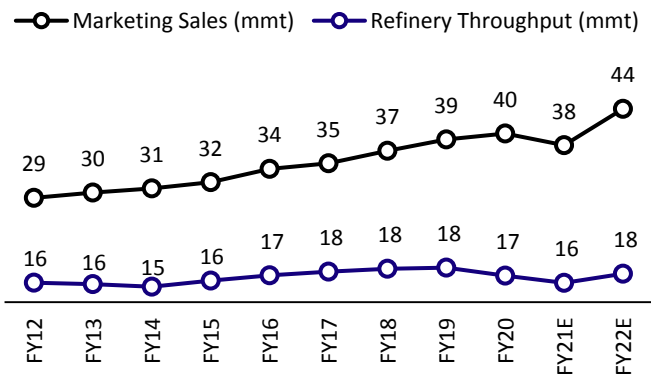
Exhibit 3: Marketing volumes down 5.3% YoY and 9.5% QoQ (to 9.6mmt)



Source: Company, MOFSL

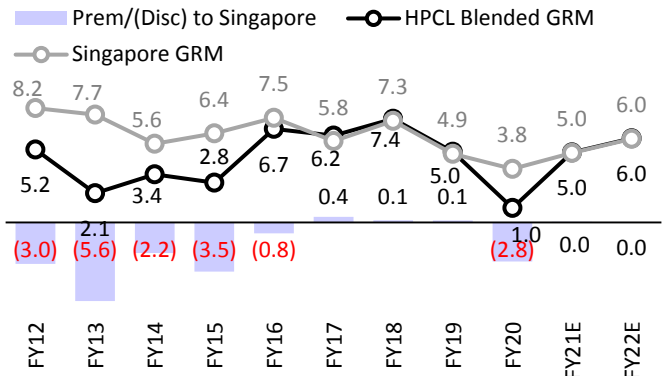
Story in charts

Exhibit 4: Refining throughput/marketing sales of HPCL



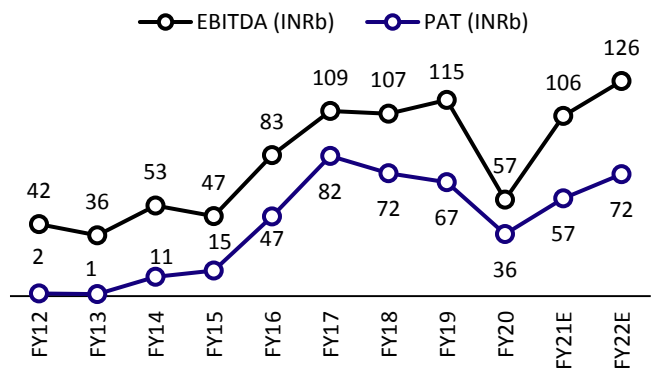
Source: Company, MOFSL

Exhibit 5: GRM trend of HPCL



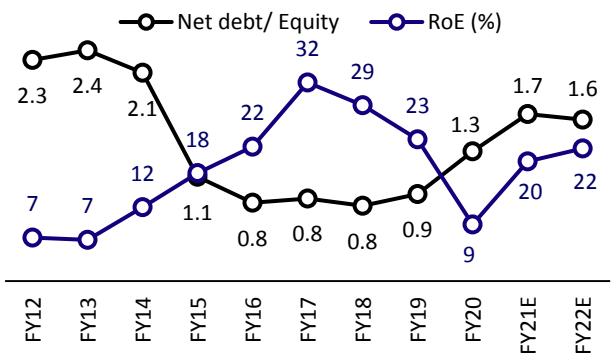
Source: Company, MOFSL

Exhibit 6: EBITDA v/s PAT



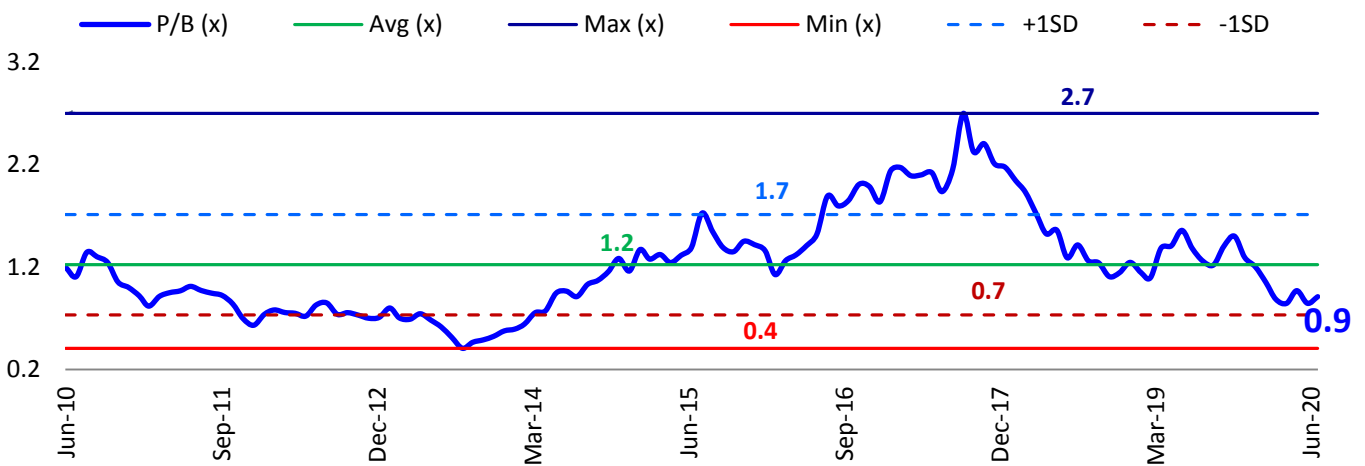
Source: Company, MOFSL

Exhibit 7: Standalone return ratios



Source: Company, MOFSL

Exhibit 8: HPCL – 1-year forward P/B trades around its long-term average



Source: Company, MOFSL

Financials and Valuations

Consolidated - Income Statement								(INR m)
Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Total Income from Operations	23,04,792	17,79,102	18,74,929	21,95,096	27,54,906	26,90,915	19,40,705	24,07,113
Change (%)	-6.3	-22.8	5.4	17.1	25.5	-2.3	-27.9	24.0
Total Expenditure	22,57,800	16,96,307	17,66,132	20,87,967	26,39,634	26,34,290	18,34,829	22,80,773
% of Sales	98.0	95.3	94.2	95.1	95.8	97.9	94.5	94.8
EBITDA	46,992	82,795	1,08,797	1,07,130	1,15,273	56,625	1,05,876	1,26,340
Margin (%)	2.0	4.7	5.8	4.9	4.2	2.1	5.5	5.2
Depreciation	24,967	28,461	27,764	28,344	30,853	33,699	40,252	46,608
EBIT	22,025	54,334	81,033	78,786	84,420	22,926	65,624	79,732
Int. and Finance Charges (incld forex)	18,412	7,232	6,092	6,179	7,856	11,389	18,677	22,800
Other Income	18,649	10,826	13,844	15,279	14,531	16,816	16,885	24,614
PBT bef. JVs/associates EO	22,263	57,928	88,784	87,886	91,095	28,354	63,832	81,546
EO Items	44	0	0	0	0	-10,029		
Minority Interest	97	9,423	23,190	13,216	9,297	-4,582	12,898	14,114
PBT after EO Exp.	22,404	67,351	1,11,974	1,01,101	1,00,392	13,743	76,730	95,660
Total Tax	7,418	20,604	29,616	28,919	33,486	-12,644	19,313	24,078
Tax Rate (%)	33.1	30.6	26.4	28.6	33.4	-92.0	25.2	25.2
Reported PAT	14,986	46,747	82,358	72,183	66,906	26,387	57,417	71,582
Adjusted PAT	14,942	46,747	82,358	72,183	66,906	36,417	57,417	71,582
Change (%)	32.3	212.9	76.2	-12.4	-7.3	-45.6	57.7	24.7
Margin (%)	0.6	2.6	4.4	3.3	2.4	1.4	3.0	3.0

Consolidated - Balance Sheet								(INR m)
Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Equity Share Capital	3,390	3,390	10,163	15,242	15,242	15,242	15,242	15,242
Total Reserves	1,35,854	1,63,248	2,00,552	2,40,082	2,88,765	2,94,564	3,13,177	3,36,382
Net Worth	1,39,244	1,66,638	2,10,714	2,55,324	3,04,007	3,09,806	3,28,419	3,51,624
Minority Interest	1,143	0	0	0	0	0	0	0
Total Loans	3,69,156	2,21,602	1,80,322	2,05,354	2,60,365	3,93,858	5,40,000	6,00,000
Deferred Tax Liabilities	28,045	50,342	61,493	68,048	73,963	54,914	54,914	54,914
Capital Employed	5,37,588	4,38,582	4,52,529	5,28,726	6,38,334	7,58,578	9,23,334	10,06,539
Net Fixed Assets	4,53,066	3,36,617	3,68,596	3,86,785	4,16,248	4,89,351	5,68,799	6,22,191
Goodwill on Consolidation	1,186	167	167	167	167	167	167	167
Capital WIP	39,498	23,224	18,675	40,105	95,187	1,71,698	2,15,837	2,79,677
Total Investments	61,128	91,845	1,17,734	1,28,820	1,42,975	1,43,956	1,43,956	1,43,956
Curr. Assets, Loans&Adv.	3,02,569	2,43,677	2,83,590	3,22,457	3,95,477	3,36,823	3,51,938	3,50,936
Inventory	1,60,448	1,33,548	1,86,292	1,86,122	2,04,436	1,93,260	1,39,380	1,72,877
Account Receivables	40,707	37,763	40,917	55,870	56,678	39,342	28,374	35,193
Cash and Bank Balance	22,358	1,542	1,364	12,897	2,185	2,231	82,194	40,876
Loans and Advances	79,056	70,825	5,315	10,430	19,923	18,192	18,192	18,192
Others			49,702	57,138	1,12,255	83,798	83,798	83,798
Curr. Liability & Prov.	3,19,859	2,56,948	3,50,657	3,67,991	4,35,131	4,10,484	3,57,364	3,90,389
Account Payables	1,26,395	94,648	1,26,997	1,57,800	1,90,534	1,90,534	1,37,414	1,70,439
Other Current Liabilities	1,62,108	1,40,567	1,99,122	1,85,036	2,23,191	1,93,098	1,93,098	1,93,098
Provisions	31,357	21,733	24,539	25,155	21,406	26,852	26,852	26,852
Net Current Assets	-17,290	-13,271	-67,067	-45,534	-39,654	-73,661	-5,426	-39,452
Appl. of Funds	5,37,588	4,38,582	4,52,529	5,28,726	6,38,334	7,58,578	9,23,334	10,06,539

E: MOFSL Estimates

Financials and Valuations

Ratios

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
EPS	9.8	30.7	54.0	47.4	43.9	23.9	37.7	47.0
Cash EPS	26.2	49.3	72.2	66.0	64.1	46.0	64.1	77.5
BV/Share	91.4	109.3	138.2	167.5	199.5	203.3	215.5	230.7
DPS	5.4	9.6	22.8	17.0	15.9	9.8	21.2	26.4
Payout (%)	67.3	37.5	50.8	44.5	45.5	79.8	67.6	67.6
Valuation (x)								
P/E	21.8	7.0	4.0	4.5	4.9	9.0	5.7	4.6
Cash P/E	8.2	4.3	3.0	3.2	3.3	4.7	3.3	2.8
P/BV	2.3	2.0	1.5	1.3	1.1	1.1	1.0	0.9
EV/Sales	0.3	0.3	0.3	0.2	0.2	0.3	0.4	0.4
EV/EBITDA	14.3	6.6	4.6	4.8	5.1	12.7	7.4	7.0
Dividend Yield (%)	2.5	4.5	10.7	7.9	7.4	4.6	9.9	12.4
FCF per share	86.2	116.0	78.5	19.1	-18.6	-71.0	-35.7	-34.7
Return Ratios (%)								
RoE	10.7	30.6	43.7	31.0	23.9	11.9	18.0	21.1
RoCE	4.8	10.1	17.9	15.8	12.9	12.0	7.9	8.6
RoIC	3.2	10.2	18.7	17.0	15.1	10.5	10.7	11.7
Working Capital Ratios								
Fixed Asset Turnover (x)	3.4	4.9	4.4	4.7	5.2	4.2	2.6	2.8
Asset Turnover (x)	4.3	4.1	4.1	4.2	4.3	3.5	2.1	2.4
Inventory (Days)	25	27	36	31	27	26	26	26
Debtor (Days)	6	8	8	9	8	5	5	5
Creditor (Days)	20	19	25	26	25	26	26	26
Leverage Ratio (x)								
Current Ratio	0.9	0.9	0.8	0.9	0.9	0.8	1.0	0.9
Interest Cover Ratio	1.2	7.5	13.3	12.8	10.7	2.0	3.5	3.5
Net Debt/Equity	2.1	0.8	0.3	0.2	0.4	0.8	1.0	1.2

Consolidated - Cash Flow Statement

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	(INR m) FY21E	(INR m) FY22E
OP/(Loss) before Tax	22,404	67,351	1,11,974	1,01,101	1,00,392	13,743	76,730	95,660
Depreciation	24,967	28,461	27,764	28,344	30,853	33,699	40,252	46,608
Change in deferred tax liability	-5,377	22,298	11,151	6,556	5,914	-19,048	0	0
Direct Taxes Paid	-7,418	-20,604	-29,616	-28,919	-33,486	12,644	-19,313	-24,078
(Inc)/Dec in WC	1,63,127	-24,836	53,619	-10,000	-16,592	34,053	11,728	-7,291
CF from Operations	1,98,810	71,526	1,74,891	97,082	87,082	75,091	1,09,397	1,10,899
CF from Operating incl EO	1,97,791	72,545	1,74,891	97,082	87,082	75,091	1,09,397	1,10,899
(Inc)/Dec in FA	-66,475	1,04,262	-55,194	-67,963	-1,15,399	-1,83,312	-1,63,840	-1,63,840
Free Cash Flow	1,31,315	1,76,807	1,19,698	29,119	-28,317	-1,08,221	-54,443	-52,941
(Pur)/Sale of Investments	-4,220	-30,717	-25,889	-11,086	-14,155	-982	0	0
CF from Investments	-70,695	73,545	-95,507	-83,009	-1,34,581	-1,87,950	-1,36,772	-1,63,840
Inc/(Dec) in Debt	-1,10,797	-1,47,554	-41,280	25,032	55,011	1,33,493	1,46,143	60,000
Dividend Paid	-10,082	-17,525	-41,857	-32,118	-30,442	-21,068	-38,804	-48,377
CF from Fin. Activity	-1,26,526	-1,66,907	-79,562	-2,541	36,787	1,12,905	1,07,338	11,623
Inc/Dec of Cash	569	-20,817	-178	11,533	-10,711	46	79,963	-41,318
Opening Balance	21,789	22,358	1,542	1,364	12,897	2,185	2,231	82,194
Closing Balance	22,358	1,542	1,364	12,897	2,185	2,231	82,194	40,876

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

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