

Estimate change	↔
TP change	↔
Rating change	↔

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Bloomberg	HPCL IN
Equity Shares (m)	1,452
M.Cap.(INRb)/(USDb)	375.8 / 5.1
52-Week Range (INR)	312 / 163
1, 6, 12 Rel. Per (%)	-16/10/-20
12M Avg Val (INR M)	1737

Financials & Valuations (INR b)

Y/E March	2021	2022E	2023E
Sales	2,332	2,867	2,708
EBITDA	160.0	106.3	119.8
Adj. PAT	106.6	56.9	65.9
Adj. EPS (INR)	70.0	37.3	43.3
EPS Gr. (%)	192.8	(46.6)	15.9
BV/Sh.(INR)	249.8	265.7	285.6

Ratios

Net D:E	1.1	1.3	1.4
RoE (%)	30.9	14.5	15.7
RoCE (%)	14.9	6.5	6.5
Payout (%)	31.0	57.6	53.9

Valuations

P/E (x)	3.8	7.1	6.1
P/BV (x)	1.1	1.0	0.9
EV/EBITDA (x)	5.2	8.9	8.4
Div. Yield (%)	8.2	8.1	8.8
FCF Yield (%)	15.4	(19.7)	(0.5)

Shareholding pattern (%)

As On	Jun-21	Mar-21	Jun-20
Promoter	54.9	53.5	51.1
DII	16.3	18.9	23.6
FII	17.8	16.3	16.1
Others	11.0	11.3	9.2

FII Includes depository receipts

CMP: INR265
TP: INR295 (+11%)
Neutral

Project execution poses greatest risk hereafter

- HPCL reported a beat on our estimates, driven by a better-than-expected performance from the Marketing segment. On the other hand, Refining performance was below estimate due to a planned shutdown at the Mumbai refinery and higher fuel & loss during the quarter.
- The management expects to commission the Mumbai expansion project by the end of the month (which would add 2mmt to the company's total throughput) and would take another 2–3 months to ramp up capacity to optimal levels. The Vizag refinery expansion would be completed by end-CY21 (while the bottom upgradation unit would be completed by CY22-end).
- The company stated that marketing volumes have recovered quickly this time around with the easing of lockdown restrictions.** In July, MS consumption exceeded 2019 levels (+5%), while HSD/ATF consumption was lower (by 8.9%/49% v/s July 2019 levels).
- We expect that with the total phasing out of the COVID lockdowns and the closure of refinery complexes (est. ~3mnobpd over the next 2–3 years), the refining margin would return to its long-term average (of USD5/bbl). SG GRM improved to USD2.9/bbl in July'21 (v/s USD2 in 1QFY22), with the margin averaging higher at ~USD3.3/bbl in the first week of Aug'21.
- As the macroeconomic environment improves, we highlight that the company is Battling a three headed-monster – i) the loss of marketing leverage, ii) rising debt, and iii) key risks related to project execution.**
- We expect consolidated net debt to rise to INR604b in FY24E (from INR421b in FY21), almost 1.6x its current m-cap. We expect interest costs to rise to INR13.8b by FY24E (from INR9.6b in FY21). This would result in cumulative FCFF loss of INR37b over FY22–24E.**
- We value the stock at 1x Sep'23E P/BV and recommend a Neutral rating on the stock, with TP of INR295/share. **The major risk to our call would be the sustainability of high marketing margins.**

Beat – better-than-expected performance from Marketing

- Refining operational data was below our estimates.**
 - Refining throughput stood at 2.5mmt (-10% est.; -37% YoY / -43% QoQ) as HPCL undertook a planned shutdown at its Mumbai refinery in light of capacity expansion. Reported GRM stood at USD3.3/bbl (est. USD4 and USD0.04/USD8.1 in 1Q/4QFY21).
- Marketing operational data was above our estimates.**
 - Sales volumes stood at 8.8mmt (+9% est.; +16% YoY / -13% QoQ). The marketing margin (including inv.) stood at INR5.7/liter (+34% est.; -31% YoY / -5% QoQ).
- EBITDA stood at INR32.6b (-25% YoY), with PAT at INR18b (-36% YoY).**

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Valuation and view – maintain Neutral

- **INR145b capex is planned for FY22 (of which INR30b was spent in 1QFY22).**
- The completion of various ongoing projects would drive growth for the company over the next 3–5 years, such as (a) the bottom upgradation unit in Vizag by 3QFY23, (b) the Rajasthan (Barmer) refinery in CY23, (c) the HMEL petchem project in CY21, (d) the Charra LNG terminal in CY22, and (e) the development of 20 CGD GAs in nine states.
- Moreover, the company is working on multiple petchem integration projects totaling ~6.2mmt (~15% of total refining capacity) over the next 3–4 years:
 - An additional cracker at HMEL would have a capacity of ~2.7mmt.
 - The Rajasthan refinery would have 2.2mmt of petchem capacity.
 - OMPL and MRPL combined should have another 1.2–1.4mmt capacity.
- Despite the potential highlighted above, we maintain Neutral on the stock, with risks such as project execution in Vizag and rising debt levels.

Standalone - Quarterly Earnings Model

(INR b)

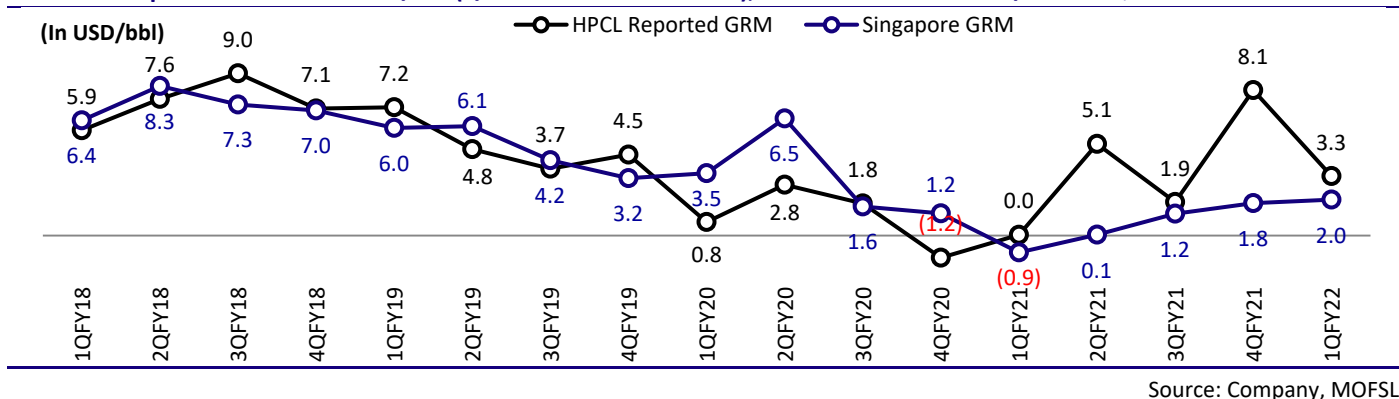
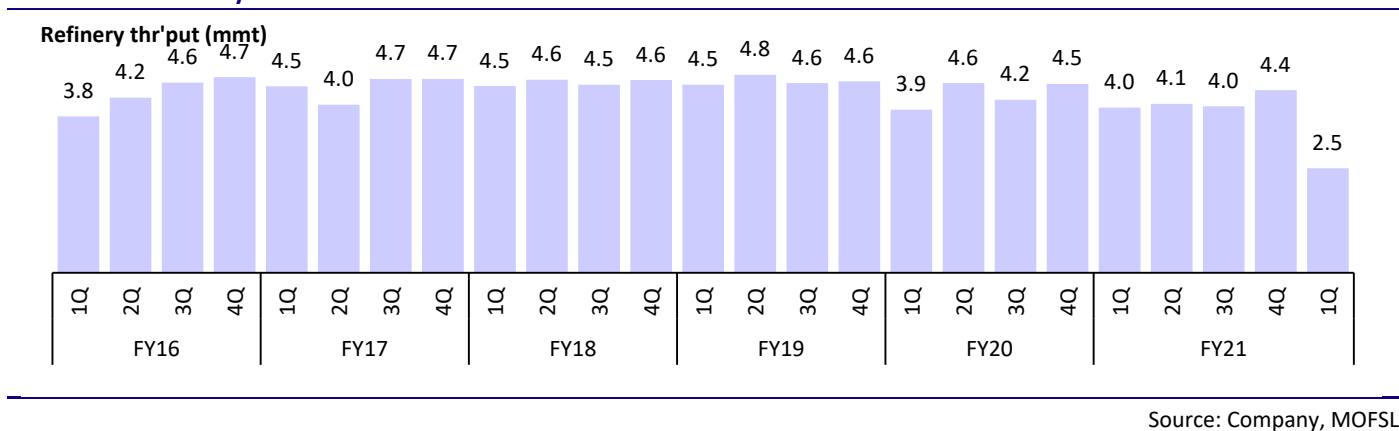
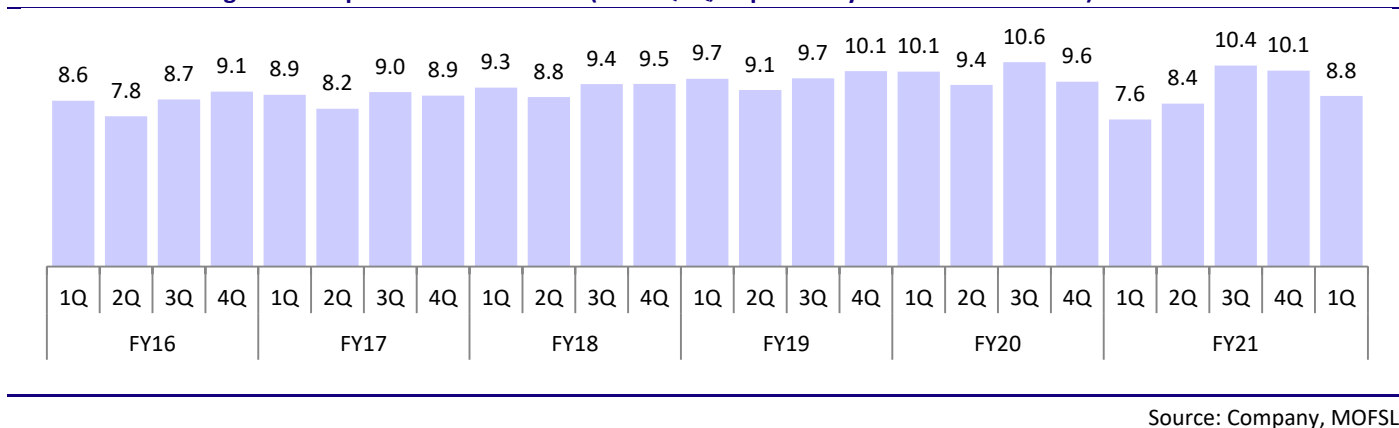
Y/E March	FY21				FY22				FY21	FY22E	FY21	Var. vs
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			1QE	est
Net Sales	377.2	517.7	686.6	748.4	724.4	755.2	677.6	707.0	2,330.0	2,864.3	523.5	38%
YoY Change (%)	-46.9	-14.9	-3.0	13.1	92.1	45.9	-1.3	-5.5	-13.3	22.9	38.8	
EBITDA	43.5	36.0	33.0	46.7	32.6	23.7	25.1	24.1	159.3	105.6	17.0	92%
Margins (%)	11.5	7.0	4.8	6.2	4.5	3.1	3.7	3.4	6.8	3.7	3.3	
Depreciation	8.7	8.7	8.8	9.4	9.1	9.6	10.2	11.9	35.5	40.8	9.8	-7%
Forex loss	0.0	-5.7	-3.0	-1.4	0.7	0.0	0.0	0.0	-10.1	0.7	5.3	
Interest	3.2	2.6	1.3	2.1	2.5	2.7	2.8	2.8	9.1	10.8	2.2	18%
Other Income	5.6	2.4	5.7	4.0	3.7	5.0	5.0	6.2	17.8	19.8	10.3	-64%
PBT before EO expense	37.3	32.9	31.6	40.7	24.0	16.4	17.0	15.6	142.5	73.0	10.0	140%
PBT	37.3	32.9	31.6	40.7	24.0	16.4	17.0	15.6	142.5	73.0	10.0	140%
Tax	9.1	8.1	8.0	10.5	6.0	4.1	4.3	3.9	35.8	18.4	2.5	140%
Rate (%)	24.5	24.7	25.4	25.8	25.1	25.2	25.2	25.2	25.1	25.2	25.2	
Adj PAT	28.1	24.8	23.5	30.2	18.0	12.3	12.7	11.7	106.6	54.6	7.5	140%
YoY Change (%)	247.0	135.4	215.1	193.1	-36.2	-50.4	-45.9	-61.3	192.9	-48.8	-73.5	
Key Assumptions												
Refining throughput (mmt)	4.0	4.1	4.0	4.4	2.5	3.5	4.5	4.5	16.4	15.0	2.8	-10%
Core GRM (USD/bbl)	-0.9	2.7	-1.0	3.5	3.3	4.0	4.0	4.0	1.1	3.8	4.0	-17%
Marketing sales incl exports (mmt)	7.6	8.4	10.4	10.1	8.8	10.1	10.4	10.6	36.6	40.0	8.1	9%
Marketing GM incld inv (INR/litre)	8.2	6.0	5.2	6.0	5.7	4.4	4.4	4.6	6.3	4.8	4.2	34%

E: MOFSL Estimates

Exhibit 1: HPCL – key assumptions

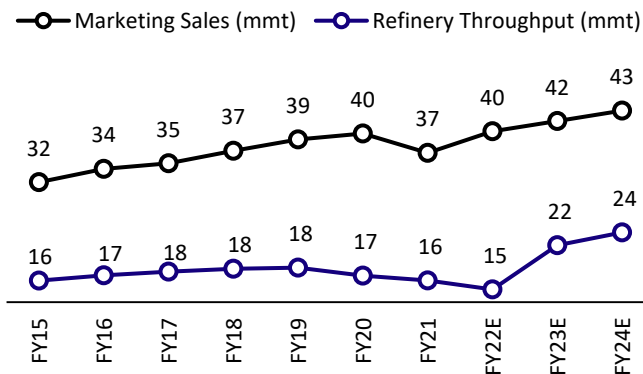
Y End: March 31	2017	2018	2019	2020	2021	2022E	2023E	2024E
Exchange Rate (INR/USD)	67.1	64.5	70.0	70.9	74.3	73.9	75.6	75.6
Brent Crude (USD/bbl)	48.6	57.6	70.1	61.2	44.4	63.4	60.0	60.0
Market Sales (MMT)	35	37	39	40	37	40	42	43
YoY (%)	3	6	5	2	(8)	9	4	4
GRM (USD/bbl)	6.2	7.4	5.0	1.0	3.9	3.9	5.0	5.0
Singapore GRM (USD/bbl)	5.8	7.3	4.9	3.2	0.5	3.5	5.0	5.0
Prem/(disc) (USD/bbl)	0	0	0	(2)	3	0.4	(0.0)	(0.0)
Total Refinery throughput (MMT)	17.8	18.3	18.4	17.2	16.4	15.0	22.0	24.0
YoY (%)	3%	3%	1%	-7%	-4%	-9%	47%	9%
Refining capacity utilization (%)	120%	116%	117%	109%	104%	95%	98%	98%
Blended marketing margin incld inventory (INR/lit)	4.0	3.6	4.3	4.0	6.3	4.8	4.5	4.5
Cons EPS	54.0	47.4	43.9	23.9	70.0	37.3	43.3	43.3

Source: Company, MOFSL

Exhibit 2: Reported GRM at USD3.3/bbl (v/s our estimate of USD4), while SG GRM at USD2/bbl in 1QFY22**Exhibit 3: Throughput at 2.5mmt (utilization at 64%) in 1QFY22 (-37% YoY / -43% QoQ) – due to a planned shutdown at Mumbai refinery****Exhibit 4: Marketing volume up 16% YoY to 8.8mmt (-13% QoQ, impacted by second COVID wave)**

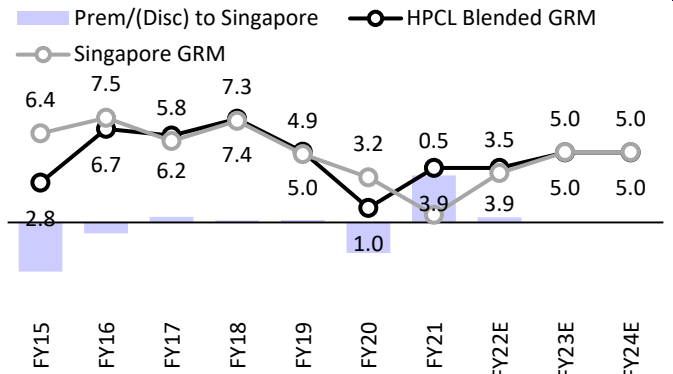
Story in charts

Exhibit 5: Refining throughput/marketing sales



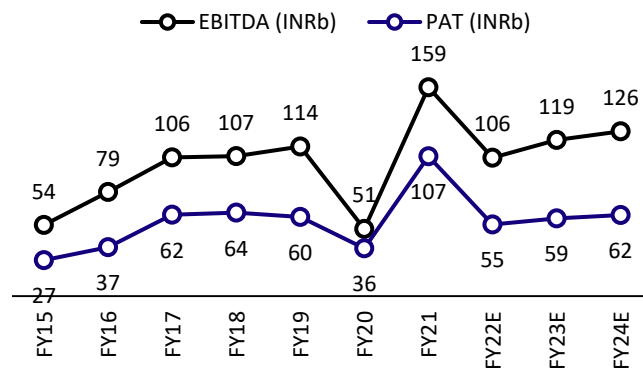
Source: Company, MOFSL

Exhibit 6: GRM trend



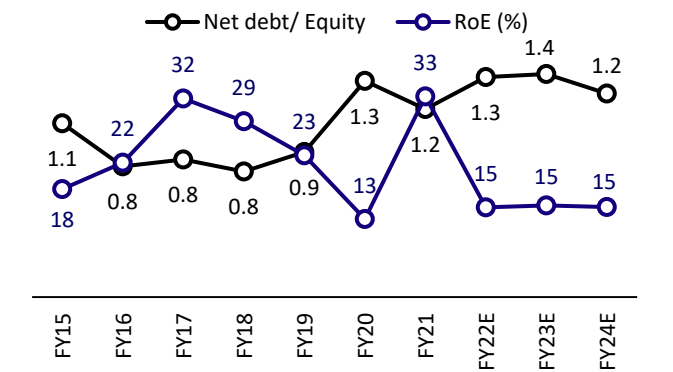
Source: Company, MOFSL

Exhibit 7: EBITDA v/s PAT (standalone)



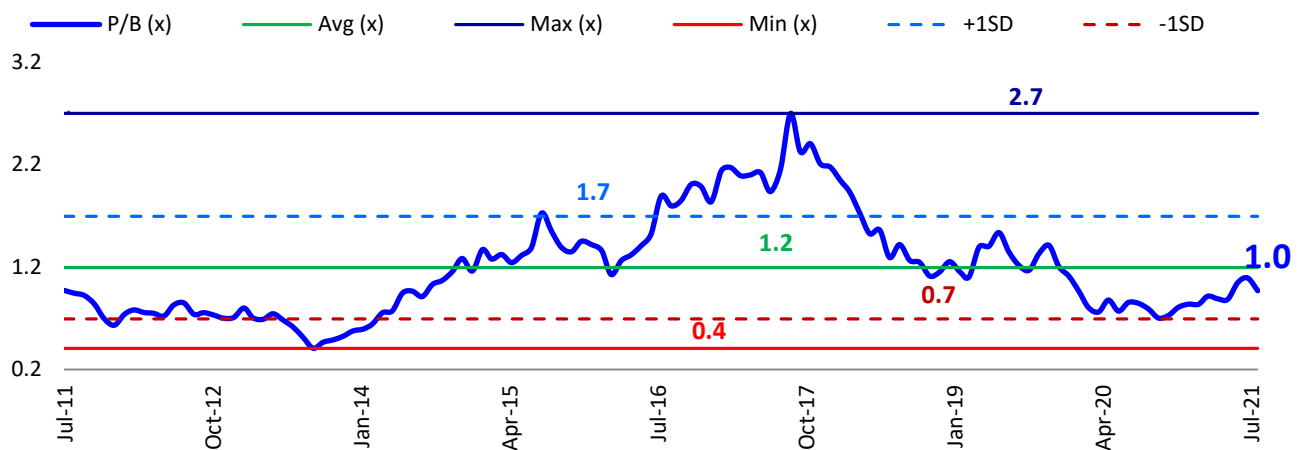
Source: Company, MOFSL

Exhibit 8: Standalone return ratios



Source: Company, MOFSL

Exhibit 9: One-year forward P/B trades at 20% discount to LTA of 1.2x



Source: Company, MOFSL

Financials and valuations

Consolidated - Income Statement						(INR Billion)		
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Total Income from Operations	1,874.9	2,195.1	2,754.9	2,690.9	2,332.5	2,866.8	2,708.0	2,684.2
Change (%)	5.4	17.1	25.5	-2.3	-13.3	22.9	-5.5	-0.9
EBITDA	108.8	107.1	115.3	56.6	160.0	106.3	119.8	126.4
Margin (%)	5.8	4.9	4.2	2.1	6.9	3.7	4.4	4.7
Depreciation	27.8	28.3	30.9	33.7	36.3	39.5	43.8	49.5
EBIT	81.0	78.8	84.4	22.9	123.8	66.9	76.0	76.9
Interest Charges (incl'd forex)	6.1	6.2	7.9	11.4	9.6	12.9	13.2	13.8
Other Income	13.8	15.3	14.5	16.8	26.4	10.5	10.5	10.5
PBT bef. JVs/associates EO	88.8	87.9	91.1	28.4	140.6	64.5	73.3	73.6
EO Items	0.0	0.0	0.0	-10.0	0.0	0.0	0.0	0.0
Minority Interest	23.2	13.2	9.3	-4.6	1.4	11.5	14.8	14.6
PBT after EO Exp.	112.0	101.1	100.4	13.7	142.0	76.0	88.1	88.2
Total Tax	29.6	28.9	33.5	-12.6	35.3	19.1	22.2	22.2
Tax Rate (%)	26.4	28.6	33.4	-92.0	24.9	25.2	25.2	25.2
Reported PAT	82.4	72.2	66.9	26.4	106.6	56.9	65.9	66.0
Adjusted PAT	82.4	72.2	66.9	36.4	106.6	56.9	65.9	66.0
Change (%)	76.2	-12.4	-7.3	-45.6	192.8	-46.6	15.9	0.1
Margin (%)	4.4	3.3	2.4	1.4	4.6	2.0	2.4	2.5

Consolidated - Balance Sheet								
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Equity Share Capital	10.2	15.2	15.2	15.2	14.5	14.5	14.5	14.5
Total Reserves	200.6	240.1	288.8	294.6	366.3	390.4	420.8	449.8
Net Worth	210.7	255.3	304.0	309.8	380.8	404.9	435.4	464.3
Total Loans	180.3	205.4	260.4	393.9	427.1	555.2	610.7	610.7
Deferred Tax Liabilities	61.5	68.0	74.0	54.9	54.6	54.6	54.6	54.6
Capital Employed	452.5	528.7	638.3	758.6	862.5	1,014.7	1,100.7	1,129.6
Net Fixed Assets	368.6	386.8	416.2	489.4	505.9	666.1	772.3	822.8
Capital WIP	18.7	40.1	95.2	171.7	253.4	201.7	188.7	175.7
Total Investments	117.7	128.8	143.0	144.0	150.9	150.9	150.9	150.9
Curr. Assets, Loans&Adv.	283.6	322.5	395.5	336.8	397.3	481.8	462.4	452.1
Inventory	186.3	186.1	204.4	193.3	287.6	353.5	333.9	331.0
Account Receivables	40.9	55.9	56.7	39.3	68.7	84.4	79.8	79.1
Cash and Bank Balance	1.4	12.9	2.2	2.2	5.7	8.6	13.5	6.8
Cash	1.1	1.2	2.0	2.0	4.8	7.7	12.6	5.9
Bank Balance	0.2	11.7	0.2	0.2	0.9	0.9	0.9	0.9
Loans and Advances	5.3	10.4	19.9	18.2	11.1	11.1	11.1	11.1
Others	49.7	57.1	112.3	83.8	24.1	24.1	24.1	24.1
Curr. Liability & Prov.	350.7	368.0	435.1	410.5	479.1	519.9	507.8	505.9
Account Payables	127.0	157.8	190.5	114.7	178.0	218.8	206.6	204.8
Other Current Liabilities	199.1	185.0	223.2	268.9	272.3	272.3	272.3	272.3
Provisions	24.5	25.2	21.4	26.9	28.8	28.8	28.8	28.8
Net Current Assets	-67.1	-45.5	-39.7	-73.7	-81.8	-38.1	-45.3	-53.9
Appl. of Funds	453	529	638	759	862	1,014.7	1,100.7	1,129.6

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Basic (INR)								
EPS	54.0	47.4	43.9	23.9	70.0	37.3	43.3	43.3
Cash EPS	72.2	66.0	64.1	46.0	93.7	63.2	72.0	75.8
BV/Share	138.2	167.5	199.5	203.3	249.8	265.7	285.6	304.6
DPS	22.8	16.2	15.2	9.3	21.7	21.5	23.3	24.3
Payout (%)	50.8	42.8	43.8	77.2	31.0	57.6	53.9	56.1
Valuation (x)								
P/E	4.9	5.6	6.0	11.1	3.8	7.1	6.1	6.1
Cash P/E	3.7	4.0	4.1	5.8	2.8	4.2	3.7	3.5
P/BV	1.9	1.6	1.3	1.3	1.1	1.0	0.9	0.9
EV/Sales	0.3	0.3	0.2	0.3	0.4	0.3	0.4	0.4
EV/EBITDA	5.4	5.6	5.7	14.0	5.2	8.9	8.4	8.0
Dividend Yield (%)	8.6	6.1	5.7	3.5	8.2	8.1	8.8	9.2
FCF per share	28.9	28.4	-17.8	-54.6	40.8	-52.2	-1.2	29.0
Return Ratios (%)								
RoE	43.7	31.0	23.9	11.9	30.9	14.5	15.7	14.7
RoCE	17.9	15.8	12.9	12.0	14.9	6.5	6.5	6.2
RoIC	18.7	17.0	15.1	10.5	20.8	9.0	8.1	7.5
Working Capital Ratios								
Fixed Asset Turnover (x)	4.4	4.7	5.2	4.2	3.4	3.2	2.6	2.4
Asset Turnover (x)	4.1	4.2	4.3	3.5	2.7	2.8	2.5	2.4
Inventory (Days)	36	31	27	26	45	45	45	45
Debtor (Days)	8	9	8	5	11	11	11	11
Creditor (Days)	25	26	25	16	28	28	28	28
Leverage Ratio (x)								
Current Ratio	0.8	0.9	0.9	0.8	0.8	0.9	0.9	0.9
Interest Cover Ratio	13.3	12.8	10.7	2.0	12.8	5.2	5.8	5.6
Net Debt/Equity	0.8	0.8	0.8	1.3	1.1	1.3	1.4	1.3

Consolidated - Cash Flow Statement

(INR Billion)

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
OP/(Loss) before Tax	112.0	101.1	100.4	13.7	142.0	76.0	88.1	88.2
Depreciation	27.8	28.3	30.9	33.7	36.3	39.5	43.8	49.5
Interest expense	6.1	6.2	7.9	11.4	9.6	12.9	13.2	13.8
Interest income and dividend	-3.5	-4.0	-4.0	-4.0	-4.0	0.0	0.0	0.0
Direct Taxes Paid	-21.8	-20.0	-20.8	-17.2	-31.9	-19.1	-22.2	-22.2
MI and others	-24.6	-10.7	-4.5	9.7	-2.7	0.0	0.0	0.0
(Inc)/Dec in WC	6.6	9.4	-24.3	7.4	28.9	-40.9	12.1	1.8
CF from Operations	102.5	110.4	85.5	54.7	178.3	68.4	135.1	131.2
(Inc)/Dec in FA	-58.5	-67.0	-112.7	-137.9	-116.1	-148.0	-137.0	-87.0
Free Cash Flow	44.0	43.3	-27.1	-83.2	62.2	-79.6	-1.9	44.2
Others	-2.8	3.7	9.3	5.6	7.0	0.0	0.0	0.0
CF from Investments	-60.4	-66.0	-110.7	-141.7	-122.8	-148.0	-137.0	-87.0
Inc/(Dec) in Debt	5.3	-11.2	51.0	114.6	2.9	128.1	55.5	0.0
Interest Paid	-5.9	-5.1	-8.5	-12.9	-16.0	-12.9	-13.2	-13.8
Dividend Paid	-41.8	-27.9	-16.5	-17.3	-14.8	-32.8	-35.5	-37.1
CF from Fin. Activity	-42.4	-44.2	26.0	87.0	-52.8	82.5	6.8	-50.9
Inc/Dec of Cash	-0.3	0.1	0.8	0.1	2.8	2.9	4.9	-6.7
Opening Balance	1.4	1.1	1.2	2.0	2.0	4.8	7.7	12.6
Closing Balance	1.1	1.2	2.0	2.0	4.8	7.7	12.6	5.9

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 within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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