

Estimate change



TP change



Rating change



Bloomberg	HPCL IN
Equity Shares (m)	1,452
M.Cap.(INRb)/(USDb)	355.6 / 4.5
52-Week Range (INR)	355 / 207
1, 6, 12 Rel. Per (%)	1/-10/-13
12M Avg Val (INR M)	1274

Financials & Valuations (INR b)

Y/E March	FY22	FY23E	FY24E
Sales	3,499	4,250	3,864
EBITDA	102.4	(22.6)	125.3
Adj. PAT	72.9	(44.8)	67.2
Adj. EPS (INR)	47.9	(29.4)	44.1
EPS Gr. (%)	(31.6)	NA	NA
BV/Sh.(INR)	271.6	242.2	273.2

Ratios

Net D:E	1.1	1.7	1.4
RoE (%)	18.4	(11.4)	17.1
RoCE (%)	8.3	(4.2)	6.9
Payout (%)	27.9	-	29.9

Valuations

P/E (x)	5.2	(8.5)	5.7
P/BV (x)	0.9	1.0	0.9
EV/EBITDA (x)	8.1	(44.1)	7.7
Div. Yield (%)	5.3	-	5.2
FCF Yield (%)	9.9	(37.7)	18.3

Shareholding pattern (%)

As On	Dec-21	Sep-21	Dec-20
Promoter	54.9	54.9	51.6
DII	15.1	15.9	20.8
FII	20.2	18.3	15.9
Others	9.8	10.9	11.7

FII Includes depository receipts

CMP: INR251
TP: INR273 (+9%)
Neutral

Strong GRMs offset by high marketing margin losses in 1QFY23

- HPCL's reported misses on both EBITDA and PAT were led by lower-than-estimated GRM's at USD16.6/bbl (-25% v/s our est., +401% YoY, 33% QoQ) and lower refinery throughput at 4.8mmt (-13% v/s our est.; +92% YoY, +3% QoQ).
- Singapore GRM of ~USD21/bbl in 1QFY23 has now fallen to USD8.8/bbl in 2QTFY23, which would curb strong refining margins in the coming quarter. While refining throughput was at 4.8mmt, it will increase in the coming quarter led by pent-up fuel demand on refinery expansion.
- In the marketing segment, sales volumes were modest at 10.7mmt (+4% v/s our est.; flat QoQ). However, OMCs are estimated to be generating losses of INR6.7/INR16.0 per liter on petrol/diesel at prevailing benchmark prices in 2QTFY23, respectively. **HPCL has the highest leverage to marketing and would suffer from mounting losses in this segment. However, declining crude prices may turn the marketing segment profitable.**
- Factoring in the aforementioned, we cut our GRM assumption to USD6.4/bbl for 2QFY23 and estimate an operating loss of INR23b (v/s an EBITDA of INR70b earlier) for FY23 (keeping FY24E EBITDA unchanged).
- We also highlight that the company is [Battling a three headed-monster](#) – a) loss of marketing leverage, b) rising debt, and c) project execution risk.**
- We expect its consolidated net debt to rise ~1.4x to INR589b in FY24 from INR421b in FY21. We value the stock at 1.0x FY24E P/BV and recommend a Neutral rating with a TP of INR273 (implying 9% potential upside).

Reported GRM and throughput below our estimates

- HPCL's refining throughput was below our est. at 4.8mmt (-13% v/s our est.; +92% YoY, +3% QoQ). Reported GRM was also below our est. at USD16.6/bbl (v/s USD12.5/bbl in 4QFY22).
- Marketing volumes were higher than our est. at 10.7mmt (+4% v/s our est., flat QoQ). While, marketing margin (including inv.) stood at a loss of INR9.8/liter (v/s a gain of INR2.7/5.8 in 4QFY22/1QFY22, respectively).
- Resultant operating loss came below our est. at INR115.5b. Reported loss came in at INR102b (v/s profit of INR18b in 4QFY22).

Maintain Neutral due to project execution risk and mounting debt levels

- HPCL's FY23-FY24E capex stands at ~INR224b** and the management has guided that ~30% of its investments in the next five years would be channelized in non-traditional businesses including chemicals, green hydrogen, wind, power, solar energy, etc.
- Completion of various ongoing projects will drive growth over the next 3-5 years, such as: Bhatinda refinery expansion, bottom upgradation unit at Vizag by 3QFY23E, and Rajasthan (Barmer) refinery in FY24E.
- Further, HPCL is working on the petchem integration projects totaling ~6.2mmt (~15% of total refining capacity) over the next 3–4 years:
 - 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 our Neutral rating on the stock because of the project execution risk at Vizag and rising debt levels. We value HPCL at 1.0x FY24E P/BV and arrive at a TP of INR273.**

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

Standalone - Quarterly Earning Model

(INR b)

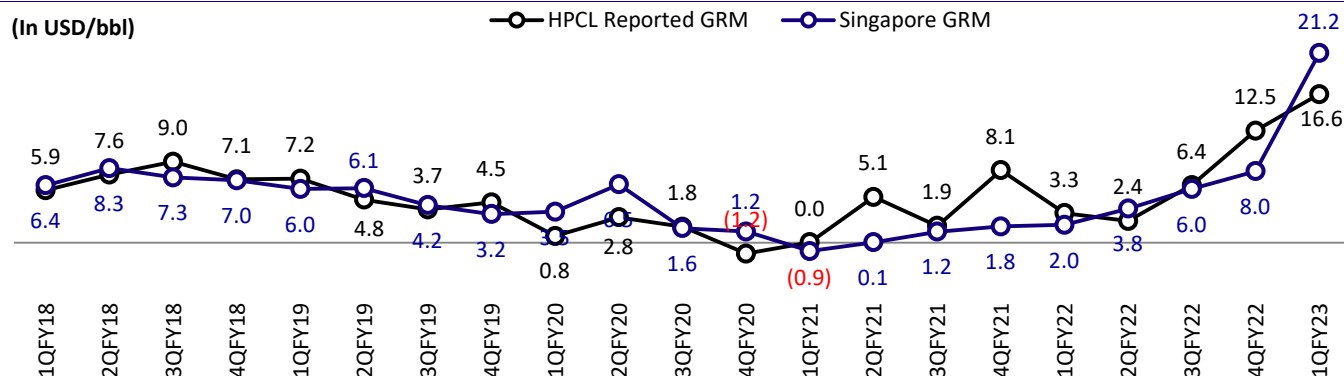
Y/E March	FY22				FY23E				FY22	FY23	FY23	Var
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			1QE	(%)
Net Sales	724.4	830.6	966.0	975.7	1,144.5	1,174.3	1,028.6	900.0	3,496.8	4,247.4	1,218.0	-6%
YoY Change (%)	92.1	60.4	40.7	30.4	58.0	41.4	6.5	-7.8	50.1	21.5	68.1	
EBITDA	32.6	30.1	18.7	21.9	-115.5	34.4	29.6	28.2	103.3	-23.3	-65.3	
Margins (%)	4.5	3.6	1.9	2.2	-10.1	2.9	2.9	3.1	3.0	-0.5	-5.4	
Depreciation	9.1	9.5	10.2	10.8	10.9	11.4	11.6	11.4	39.7	45.3	11.3	
Forex loss	0.7	-1.1	-1.4	0.9	9.5	0.0	0.0	0.0	-1.0	9.5	-2.6	
Interest	2.5	1.5	2.4	3.3	3.3	3.0	3.0	2.6	9.7	11.9	2.8	
Other Income	3.7	3.4	4.1	16.0	3.4	5.2	5.3	6.8	27.2	20.6	41.1	
PBT before EO expense	24.0	23.6	11.6	22.8	-135.8	25.1	20.2	21.0	82.0	-69.4	-35.8	
PBT	24.0	23.6	11.6	22.8	-135.8	25.1	20.2	21.0	82.0	-69.4	-35.8	
Tax	6.0	4.4	2.9	4.9	-33.9	6.3	5.1	5.3	18.2	-17.1	0.0	
Rate (%)	25.1	18.5	25.1	21.4	24.9	25.2	25.2	25.2	22.2	24.7	0.0	
Adj PAT	18.0	19.2	8.7	18.0	-102.0	18.8	15.1	15.7	63.8	-52.3	-35.8	
YoY Change (%)	-36.2	-22.4	-63.1	-40.5	PL	-2.2	74.3	-12.3	-40.1	PL		
Key Assumptions												
Refining throughput (mmt)	2.5	2.5	4.2	4.7	4.8	5.5	5.5	6.2	14.0	22.0	5.5	-13%
Reported GRM (USD/bbl)	3.3	2.4	6.4	12.5	16.6	6.4	4.9	5.0	6.2	8.2	22.0	-25%
Marketing sales volume incl exports (mmt)	8.8	9.1	10.5	10.7	10.7	10.3	10.3	9.8	39.1	10.3	10.2	4%

Key Assumptions- HPCL

Y End: March 31	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Exchange Rate (INR/USD)	67.1	64.5	70.0	70.9	74.3	74.5	77.7	77.0
Brent Crude (USD/bbl)	48.6	57.6	70.1	61.2	44.4	80.5	100.3	90.0
Market Sales (MMT)	35	37	39	40	37	39	41	43
YoY (%)	3	6	5	2	(8)	7	5	4
GRM (USD/bbl)	6.2	7.4	5.0	1.0	3.9	7.2	7.6	4.9
Singapore GRM (USD/bbl)	5.8	7.3	4.9	3.2	0.5	5.0	9.8	6.0
Prem/(disc) (USD/bbl)	0	0	0	(2)	3	2	(2.2)	(1.1)
Total Refinery throughput (MMT)	17.8	18.3	18.4	17.2	16.4	14.0	22.0	24.0
YoY (%)	3%	3%	1%	-7%	-4%	-15%	57%	9%
Refining capacity utilization (%)	120%	116%	117%	109%	104%	88%	98%	98%
Blended marketing margin incld inventory (INR/lit)	4.0	3.6	4.3	4.0	6.3	4.3	0.9	4.5
Cons EPS	54.0	47.4	43.9	23.9	70.0	47.9	-29.4	44.1

1QFY23 story in charts

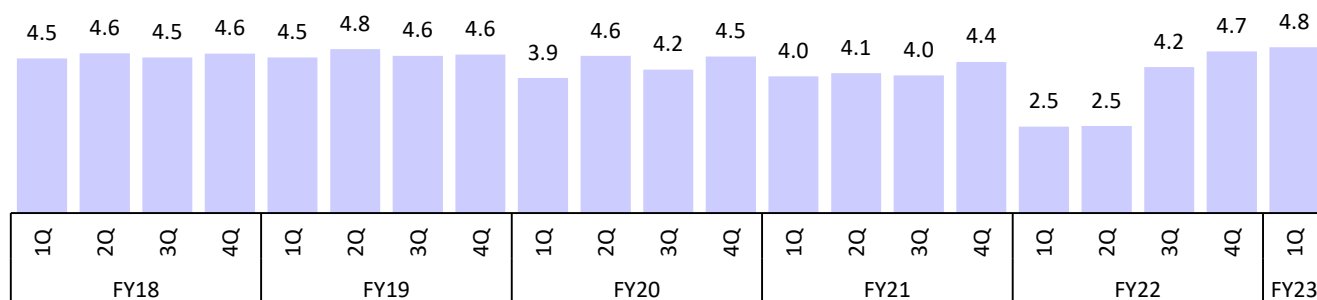
Exhibit 1: Reported GRM stood at USD16.6/bbl, while SG GRM stood at USD21.2/bbl in 1QFY23



Source: Company, MOFSL

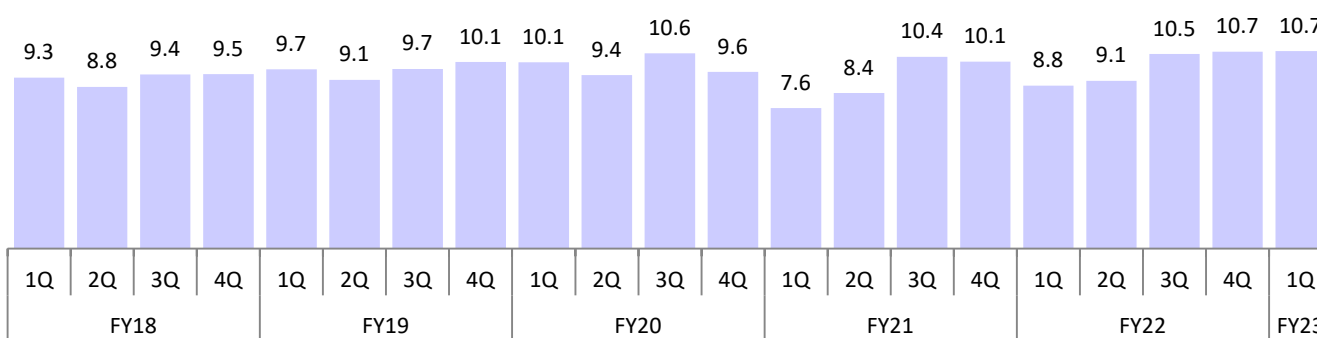
Exhibit 2: Throughput at 4.8mmt (utilization at 108%) in 1QFY23 (+92% YoY, +3% QoQ)

Refinery thr'put (mmt)



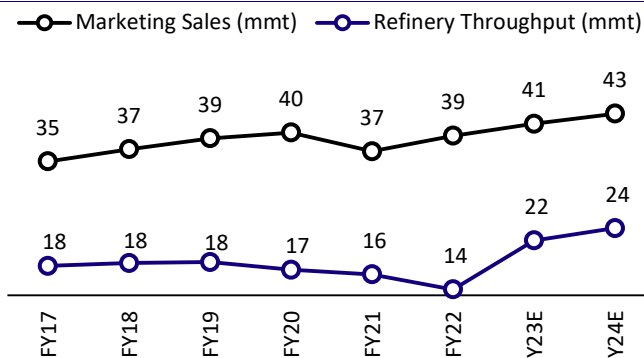
Source: Company, MOFSL

Exhibit 3: Marketing volume was +21% YoY (flat QoQ) to 10.7mmt

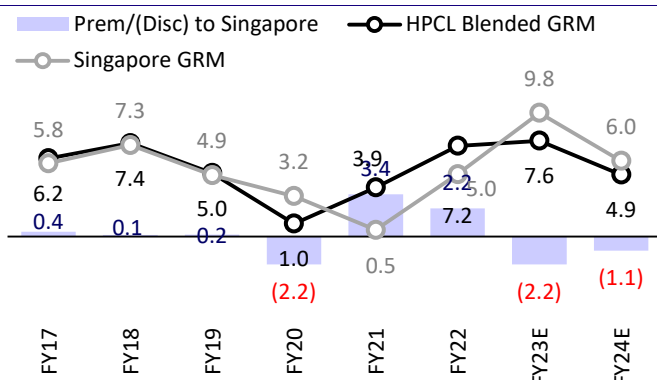


Source: Company, MOFSL

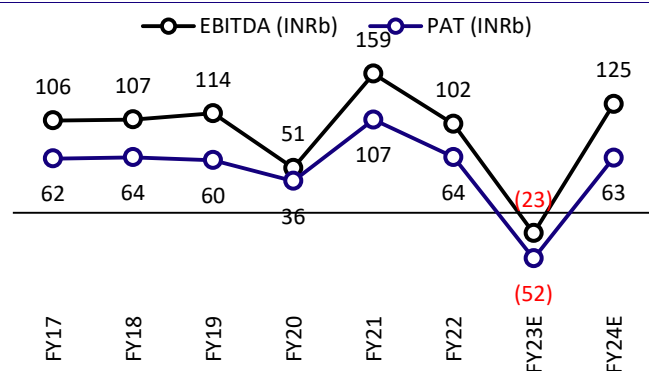
Story in charts

Exhibit 4: Refining throughput/marketing sales of HPCL


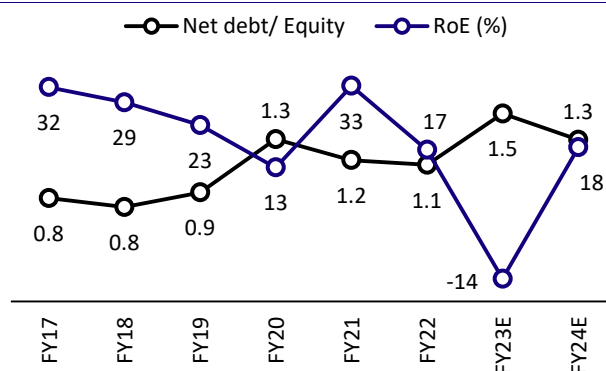
Source: Company, MOFSL

Exhibit 5: GRM trend of HPCL


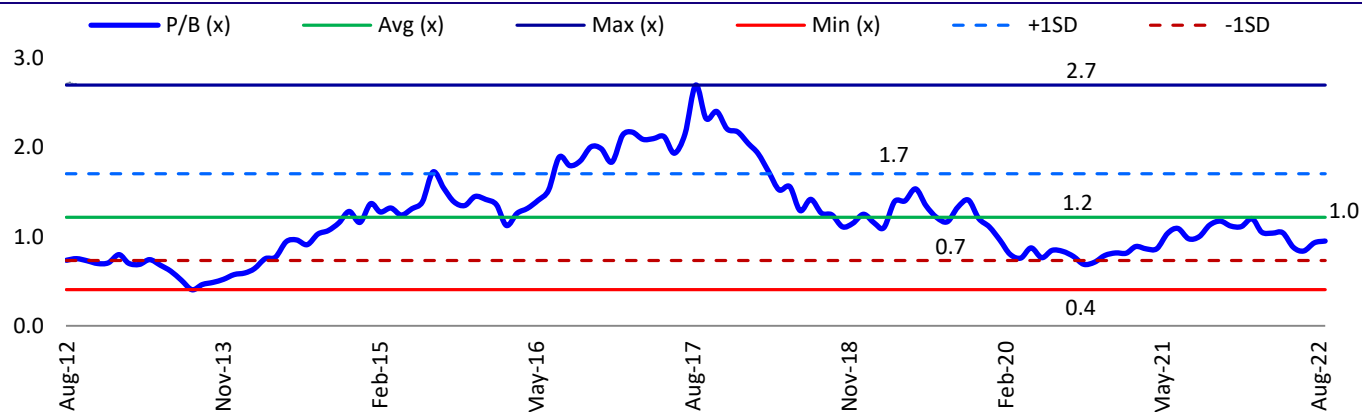
Source: Company, MOFSL

Exhibit 6: EBITDA v/s PAT (standalone)


Source: Company, MOFSL

Exhibit 7: Standalone ratios


Source: Company, MOFSL

Exhibit 8: HPCL – 1-year forward P/B trades at 17% discount to its long-term average of 1.2x


Source: Company, MOFSL

Financials and valuations

Consolidated - Income Statement

(INR b)

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Total Income from Operations	1,874.9	2,195.1	2,754.9	2,690.9	2,332.5	3,499.1	4,249.7	3,863.8
Change (%)	5.4	17.1	25.5	-2.3	-13.3	50.0	21.5	-9.1
EBITDA	108.8	107.1	115.3	56.6	160.0	102.4	-22.6	125.3
Margin (%)	5.8	4.9	4.2	2.1	6.9	2.9	-0.5	3.2
Depreciation	27.8	28.3	30.9	33.7	36.3	40.0	47.0	50.1
EBIT	81.0	78.8	84.4	22.9	123.8	62.4	-69.7	75.2
Interest Charges (incl'd forex)	6.1	6.2	7.9	11.4	9.6	10.0	23.7	22.7
Other Income	13.8	15.3	14.5	16.8	26.4	24.4	17.2	21.1
PBT bef. JVs/associates EO	88.8	87.9	91.1	28.4	140.6	76.9	-76.2	73.7
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	14.6	16.3	16.2
PBT after EO Exp.	112.0	101.1	100.4	13.7	142.0	91.4	-59.9	89.8
Total Tax	29.6	28.9	33.5	-12.6	35.3	18.5	-15.1	22.6
Tax Rate (%)	26.4	28.6	33.4	-92.0	24.9	20.2	25.2	25.2
Reported PAT	82.4	72.2	66.9	26.4	106.6	72.9	-44.8	67.2
Adjusted PAT	82.4	72.2	66.9	36.4	106.6	72.9	-44.8	67.2
Change (%)	76.2	-12.4	-7.3	-45.6	192.8	-31.6	-161.5	-250.0
Margin (%)	4.4	3.3	2.4	1.4	4.6	2.1	-1.1	1.7

Consolidated - Balance Sheet

(INR b)

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Equity Share Capital	10.2	15.2	15.2	15.2	14.5	14.2	14.2	14.2
Total Reserves	200.6	240.1	288.8	294.6	366.3	399.9	355.0	402.2
Net Worth	210.7	255.3	304.0	309.8	380.8	414.0	369.2	416.4
Total Loans	180.3	205.4	260.4	393.9	427.1	450.3	616.9	678.6
Deferred Tax Liabilities	61.5	68.0	74.0	54.9	54.6	59.6	59.6	59.6
Capital Employed	452.5	528.7	638.3	758.6	862.5	923.9	1,045.7	1,154.6
Net Fixed Assets	368.6	386.8	416.2	489.4	505.9	578.0	680.7	730.6
Capital WIP	18.7	40.1	95.2	171.7	253.4	289.1	276.4	263.4
Total Investments	117.7	128.8	143.0	144.0	150.9	188.7	188.7	188.7
Curr. Assets, Loans&Adv.	283.6	322.5	395.5	336.8	397.3	453.0	541.7	584.4
Inventory	186.3	186.1	204.4	193.3	287.6	355.1	431.3	392.2
Account Receivables	40.9	55.9	56.7	39.3	68.7	63.4	77.0	70.0
Cash and Bank Balance	1.4	12.9	2.2	2.2	5.7	2.6	1.4	90.3
Cash	1.1	1.2	2.0	2.0	4.8	2.3	1.2	90.1
Bank Balance	0.2	11.7	0.2	0.2	0.9	0.2	0.2	0.2
Loans and Advances	5.3	10.4	19.9	18.2	11.1	10.8	10.8	10.8
Others	49.7	57.1	112.3	83.8	24.1	21.1	21.1	21.1
Curr. Liability & Prov.	350.7	368.0	435.1	410.5	479.1	622.3	679.1	649.9
Account Payables	127.0	157.8	190.5	114.7	178.0	264.8	321.6	292.4
Other Current Liabilities	199.1	185.0	223.2	268.9	272.3	332.2	332.2	332.2
Provisions	24.5	25.2	21.4	26.9	28.8	25.4	25.4	25.4
Net Current Assets	-67.1	-45.5	-39.7	-73.7	-81.8	-169.3	-137.5	-65.5
Appl. of Funds	453	529	638	759	862	924	1,045.7	1,154.6

Financials and valuations

Ratios

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Basic (INR)								
EPS	54.0	47.4	43.9	23.9	70.0	47.9	-29.4	44.1
Cash EPS	72.2	66.0	64.1	46.0	93.7	74.1	1.4	77.0
BV/Share	138.2	167.5	199.5	203.3	249.8	271.6	242.2	273.2
DPS	22.8	16.2	15.2	9.3	21.7	13.3	0.0	13.2
Payout (%)	50.8	42.8	43.8	77.2	31.0	27.9	0.0	29.9
Valuation (x)								
P/E	4.6	5.3	5.7	10.5	3.6	5.2	-8.5	5.7
Cash P/E	3.5	3.8	3.9	5.5	2.7	3.4	173.3	3.3
P/BV	1.8	1.5	1.3	1.2	1.0	0.9	1.0	0.9
EV/Sales	0.3	0.3	0.2	0.3	0.3	0.2	0.2	0.3
EV/EBITDA	5.2	5.4	5.6	13.7	5.0	8.1	-44.1	7.7
Dividend Yield (%)	9.1	6.5	6.0	3.7	8.6	5.3	0.0	5.2
FCF per share	28.9	28.4	-17.8	-54.6	40.8	24.8	-94.5	45.9
Return Ratios (%)								
RoE	43.7	31.0	23.9	11.9	30.9	18.4	-11.4	17.1
RoCE	17.9	15.8	12.9	12.0	14.9	8.3	-4.2	6.9
RoIC	18.7	17.0	15.1	10.5	20.8	11.1	-10.2	9.4
Working Capital Ratios								
Fixed Asset Turnover (x)	4.4	4.7	5.2	4.2	3.4	4.4	4.5	3.7
Asset Turnover (x)	4.1	4.2	4.3	3.5	2.7	3.8	4.1	3.3
Inventory (Days)	36	31	27	26	45	37	37	37
Debtor (Days)	8	9	8	5	11	7	7	7
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	0.7	0.8	0.9
Interest Cover Ratio	13.3	12.8	10.7	2.0	12.8	6.3	-2.9	3.3
Net Debt/Equity	0.8	0.8	0.8	1.3	1.1	1.1	1.7	1.4

Consolidated - Cash Flow Statement

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
(INR b)								
OP/(Loss) before Tax	112.0	101.1	100.4	13.7	142.0	91.4	-59.9	89.8
Depreciation	27.8	28.3	30.9	33.7	36.3	40.0	47.0	50.1
Interest expense	6.1	6.2	7.9	11.4	9.6	10.0	23.7	22.7
Interest income and dividend	-3.5	-4.0	-4.0	-4.0	-4.0	-4.0	0.0	0.0
Direct Taxes Paid	-21.8	-20.0	-20.8	-17.2	-31.9	-14.5	15.1	-22.6
MI and others	-24.6	-10.7	-4.5	9.7	-2.7	-20.3	0.0	0.0
(Inc)/Dec in WC	6.6	9.4	-24.3	7.4	28.9	55.5	-33.0	17.0
CF from Operations	102.5	110.4	85.5	54.7	178.3	158.1	-7.1	156.9
(Inc)/Dec in FA	-58.5	-67.0	-112.7	-137.9	-116.1	-120.3	-137.0	-87.0
Free Cash Flow	44.0	43.3	-27.1	-83.2	62.2	37.8	-144.1	69.9
Others	-2.8	3.7	9.3	5.6	7.0	9.0	0.0	0.0
CF from Investments	-60.4	-66.0	-110.7	-141.7	-122.8	-137.4	-137.0	-87.0
Inc/(Dec) in Debt	5.3	-11.2	51.0	114.6	2.9	39.2	166.6	61.7
Interest Paid	-5.9	-5.1	-8.5	-12.9	-16.0	-17.2	-23.7	-22.7
Dividend Paid	-41.8	-27.9	-16.5	-17.3	-14.8	-32.2	0.0	-20.1
CF from Fin. Activity	-42.4	-44.2	26.0	87.0	-52.8	-23.1	142.9	18.9
Inc/Dec of Cash	-0.3	0.1	0.8	0.1	2.8	-2.5	-1.2	88.9
Opening Balance	1.4	1.1	1.2	2.0	2.0	4.8	2.3	1.2
Closing Balance	1.1	1.2	2.0	2.0	4.8	2.3	1.2	90.1

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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