

Estimate change



TP change



Rating change



CMP: INR432

TP: INR530 (+23%)

Upgrade to BUY

Medium-term prospects bright despite the near-term blip

Bloomberg	HPCL IN
Equity Shares (m)	1419
M.Cap.(INRb)/(USDb)	610.8 / 7.3
52-Week Range (INR)	479 / 212
1, 6, 12 Rel. Per (%)	17/35/54
12M Avg Val (INR M)	1749

Financials & Valuations (INR b)

Y/E March	FY24E	FY25E	FY26E
Sales	4,276.6	4,273.6	4,406.7
EBITDA	247.4	206.4	212.0
Adj. PAT	151.5	114.3	114.9
Adj. EPS (INR)	106.7	80.5	80.9
EPS Gr. (%)	LP	-24.5	0.5
BV/Sh.(INR)	304.8	363.6	422.3

Ratios

Net D:E	1.5	1.2	1.1
RoE (%)	40.1	24.1	20.6
RoCE (%)	14.5	10.0	9.2
Payout (%)	27.4	27.0	27.5

Valuations

P/E (x)	4.0	5.4	5.3
P/BV (x)	1.4	1.2	1.0
EV/EBITDA (x)	5.1	6.1	5.9
Div. Yield (%)	6.8	5.0	5.2
FCF Yield (%)	14.8	9.6	10.3

Shareholding pattern (%)

As On	Dec-23	Sep-23	Dec-22
Promoter	54.9	54.9	54.9
DII	21.3	22.6	19.6
FII	14.3	13.3	15.7
Others	9.6	8.8	9.8

FII Includes depository receipts

- HPCL missed our EBITDA estimate for 3QFY24 due to a lower-than-expected marketing margin of INR2.7/lit (est. of INR3.4/lit) led by suppressed margins on diesel.
- Refinery throughput was in line at 5.3mmt (up 11% YoY). The company expects to clock a refining throughput of 22mmt in FY24 (vs. 19mmt in FY23) led by the commissioning of expanded capacity at Vizag refinery. Singapore GRM has also rebounded to USD7.2/bbl in 4QFY24TD (vs. USD5.5/bbl in 3QFY24), which may lead to an improvement in refining margins in the upcoming quarter.
- In the **marketing segment**, sales volumes came in 6% above our estimate at 11.9mmt (up 6% YoY). HPCL expects to clock a marketing sales volume of 44/45mmt in FY24/25. OMCs are estimated to be generating strong gross marketing margins of INR11.0/INR8.6 per liter on petrol/diesel currently. **Among OMCs, HPCL has the highest leverage to marketing and would benefit the most due to an uptick in marketing margins.**
- The commissioning of the bottom upgradation unit at Vizag refinery would result in the distillate yield improving 10% from FY25 onwards. The company expects to maintain a GRM delta of USD3.5/bbl over SG GRM. The demerger of the lubricant business also provides a value-unlocking opportunity.
- Additionally, our marketing margin assumptions of INR3.3/lit on petrol and diesel each from 4QFY24 are materially below the current margin levels. Owing to these factors, we **upgrade HPCL to BUY**. We value the stock at 1.3x Dec'25 P/BV to arrive at our TP of INR530.

Miss on EBITDA due to lower-than-expected marketing margin

- Refining throughput was in line with our estimate at 5.3mmt (+11% YoY).
 - Reported GRM was in line with our estimate at USD8.5/bbl (-6% YoY).
- Marketing volumes stood at 11.9mmt (vs. our est. of 11.3mmt, +6% YoY).
 - Marketing margin (including inv.) stood at ~INR2.7/lit (vs. our est. of INR3.4/lit, +20% YoY).
- Resultant EBITDA was below our estimate at INR21.3b (vs. our est. of INR31.4b).
- PAT came in at INR5.3b (vs. our est. of INR12.2b), due to higher tax rate.
- For 9MFY24**, EBITDA was at INR202.3b (vs. loss of INR103.7b in 9MFY23), with PAT at INR118.5b (against loss of INR122b in 9MFY23).
 - Refining throughput was at 16.5mmt (+17% YoY); while GRM stood at USD9.8/bbl (-14% YoY). Marketing volumes stood at 34.5mmt (+7% YoY).
 - Marketing margin was at INR5.7/lit (loss of INR2.3/lit in 9MFY23).
 - The 9MFY24 EBITDA was 82% of our full-year FY24 estimate.
- HPCL had a cumulative negative net buffer of INR9.9b as of 31st Mar'23, due to the under recovery on LPG cylinders. The same has been recognized as part of the revenue upon its recovery in 9MFY24.

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Valuation and view

- Despite a disappointing 3QFY24 earnings performance hit by inventory loss and lower-than-expected marketing margin, **we upgrade HPCL to BUY**, mainly as we raise our P/B valuation multiple to 1.3x (from 1.1x earlier). We are building in a marketing margin of INR3.3/ltr for FY25-26E, while MS/HSD marketing margins are INR11/8.6 per ltr at present. As such, unless crude prices rise meaningfully or there is a substantial MS/HSD retail price cut, we see some scope for FY25E earnings to get upgraded.
- HPCL currently trades at FY26E P/B of 1x, which we believe offers a reasonable margin of safety, given that we estimate FY26E RoE at 20.6%. The lubricant business demerger provides a value-unlocking opportunity too. We value the stock at 1.3x Dec'25 P/BV to arrive at our TP of INR530. We also highlight that we had recently added HPCL to our model portfolio ([refer page 7 of 3QFY24 Preview](#)).

Standalone - Quarterly Earnings

(INR b)

Y/E March	FY23				FY24				FY23	FY24E	FY24	Var (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE				
Net Sales	1,144.5	1,084.2	1,096.0	1,079.3	1,119.6	957.0	1,113.1	1,083.8	4,404.0	4,273.5	955.7	16%
YoY Change (%)	58.0	30.5	13.5	10.6	-2.2	-11.7	1.6	0.4	25.9	-3.0	-12.8	
EBITDA	-115.5	-8.9	20.7	46.6	95.2	85.8	21.3	41.9	-57.1	244.2	31.4	-32%
Margins (%)	-10.1	-0.8	1.9	4.3	8.5	9.0	1.9	3.9	-1.3	5.7	3.3	
Depreciation	10.9	10.8	11.1	10.4	13.6	12.4	13.4	17.1	43.3	56.5	14.3	
Forex loss	9.5	6.0	4.0	-1.4	-1.3	3.6	-0.4	0.0	18.1	2.0	0.3	
Interest	3.3	5.9	6.8	5.2	5.9	5.8	6.1	6.0	21.3	23.8	6.0	
Other Income	3.4	2.8	2.9	11.6	6.3	3.4	5.6	8.0	20.7	23.3	5.5	
PBT before EO expense	-135.8	-28.9	1.7	43.9	83.3	67.4	7.7	26.8	-119.1	185.2	16.3	-53%
PBT	-135.8	-28.9	1.7	43.9	83.3	67.4	7.7	26.8	-119.1	185.2	16.3	-53%
Rate (%)	24.9	24.9	-2.4	26.6	25.5	24.1	31.1	25.2	24.7	25.2	25.2	
Adj PAT	-102.0	-21.7	1.7	32.2	62.0	51.2	5.3	20.0	-89.7	138.5	12.2	-57%
YoY Change (%)	PL	PL	-80.2	79.5	LP	LP	206.8	-37.9	PL	LP	608.2	
Key Assumptions												
Refining throughput (mmt)	4.8	4.5	4.8	5.0	5.4	5.8	5.3	6.0	19.1	22.5	5.4	-1%
Reported GRM (USD/bbl)	16.7	8.3	9.1	14.1	7.4	13.3	8.5	9.0	12.0	9.6	8.5	0%
Marketing sales volume incl exports (mmt)	10.7	10.4	11.3	11.1	11.9	10.7	11.9	12.0	43.5	46.5	11.3	6%
Marketing GM incl inv (INR/litre)	-9.9	0.7	2.2	3.7	8.4	5.9	2.7	4.4	-0.8	5.4	3.4	-23%

Key assumptions for HPCL

Particulars	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Exchange Rate (INR/USD)	64.5	70.0	70.9	74.3	74.5	80.4	83.1	84.6	86.0
Brent Crude (USD/bbl)	57.6	70.1	61.2	44.4	80.5	96.1	83.4	85.0	85.0
Market Sales (MMT)	36.9	38.7	39.6	36.6	39.1	43.5	46.5	48.4	50.3
YoY (%)	6	5	2	(8)	7	11	7	4	4
GRM (USD/bbl)	7.4	5.0	1.0	3.9	7.2	12.1	9.6	9.0	9.0
Singapore GRM (USD/bbl)	7.3	4.9	3.2	0.5	5.0	10.7	6.3	6.0	6.0
Prem/(disc) (USD/bbl)	0	0	(2)	3	2	1	3.3	3.0	3.0
Total Refinery throughput (MMT)	18.3	18.4	17.2	16.4	14.0	19.1	22.5	24.5	24.5
YoY (%)	3%	1%	-7%	-4%	-15%	37%	18%	9%	0%
Refining capacity utilization (%)	116%	117%	109%	104%	88%	85%	92%	100%	100%
Blended marketing margin incl inventory (INR/lit)	3.6	4.3	4.0	6.3	4.3	(0.8)	5.4	4.5	4.5
Consolidated EPS	50.9	47.2	25.7	75.1	51.4	-49.2	106.7	80.5	80.9

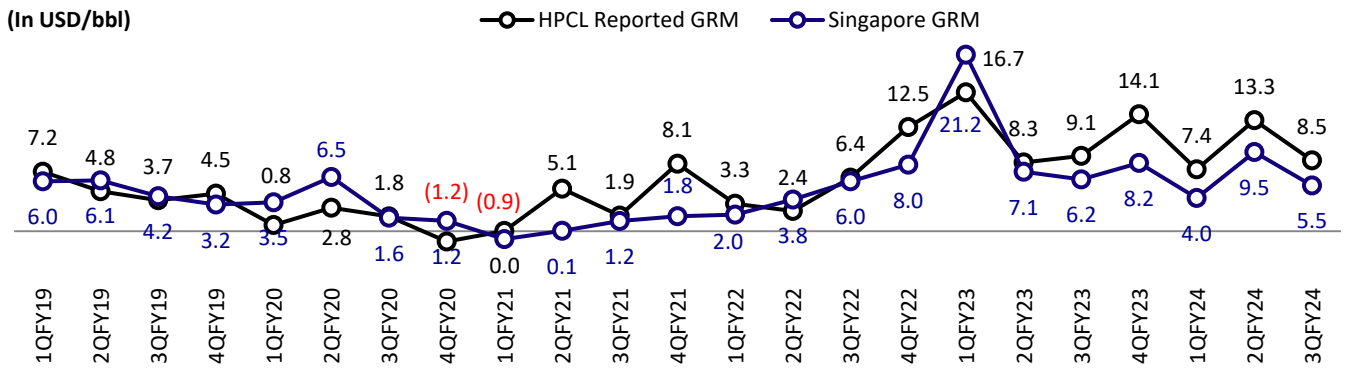


Highlights from the management commentary

- HPCL's 3Q performance was hit by the:
 - Planned maintenance shutdown at Vishakhapatnam for 55 days
 - Inventory loss on crude due to the declining trend in the quarter
 - Suppressed marketing margins on diesel
- However, the first month of 4QFY24 has been stable, and recovery is expected in the upcoming quarter
- Refinery throughput should be above 22mmtpa in FY24, and marketing sales volume should be about 44mmtpa
 - The marketing sales volume should reach 45mmtpa in FY25
- There is a firm plan on value unlocking from the lubricant business. This is expected in the next 8-10 weeks
- The output from Vishakhapatnam refinery stood at 40-42tmt/day
 - The CDU has stabilized, and the hydrocracker is under stabilization process
 - The mechanical completion process for bottom upgradation will start in 1QFY25
 - ✓ The completion of bottom upgradation will improve the distillate yield
- The physical completion of Rajasthan refinery at 75%
 - A few units have already been commissioned
 - Mechanical completion by mid-CY24
 - Production of refined products should start by Dec'24
 - Petrochemical production should commence in CY25
- HPCL's GRM should be USD3-3.5/bbl above SG GRM
- The Red Sea issue will not impact the supply of crude under term contracts at least until Mar-Apr'24
- The Vishakhapatnam refinery has higher inventory days of 60 due to longer voyage time.
- The 9MFY24 capex stood at INR104b.
- Capex should be at INR150-160b. in FY24-25

Story in charts: 3QFY24

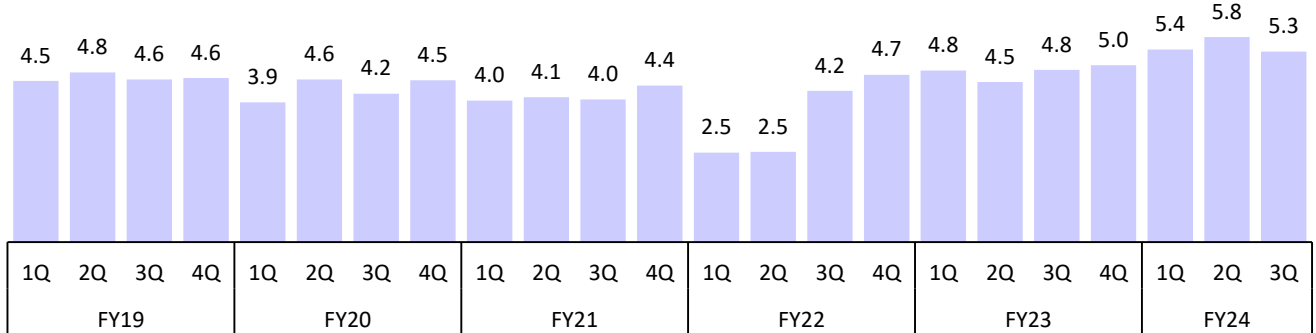
Exhibit 1: Reported GRM stood at USD13.3/bbl, up 61% YoY



Source: Company, MOFSL

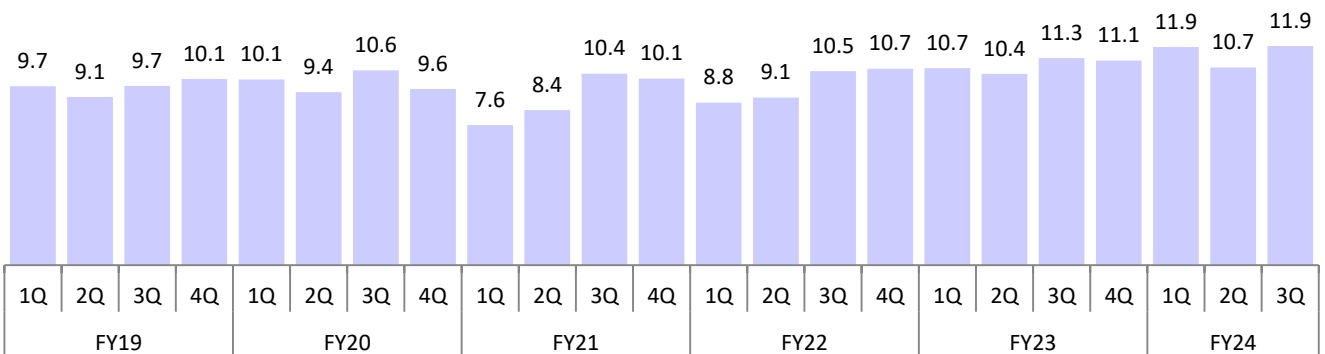
Exhibit 2: Throughput was at 5.8mmt, up 28% YoY

Refinery throughput (mmt)



Source: Company, MOFSL

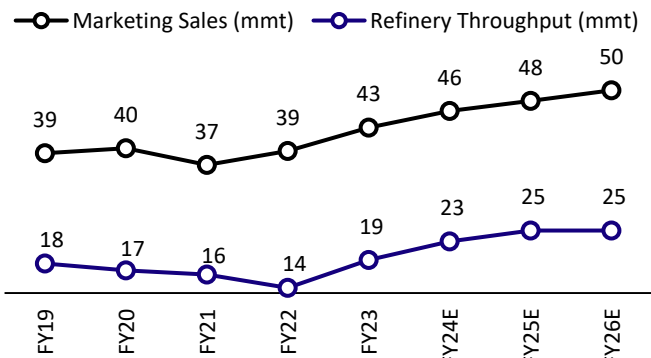
Exhibit 3: Marketing volumes grew ~3% YoY to 10.7mmt



Source: Company, MOFSL

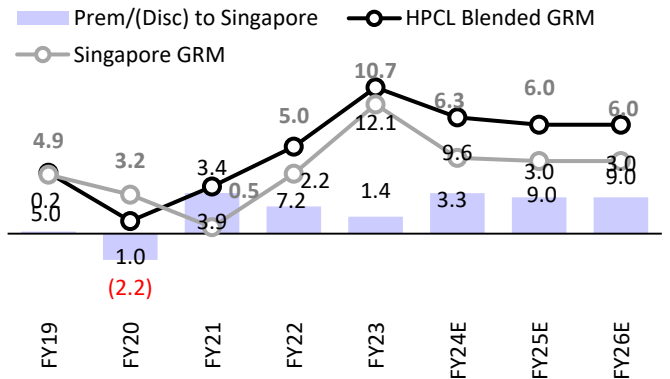
Story in charts

Exhibit 4: Refining throughput/marketing sales of HPCL



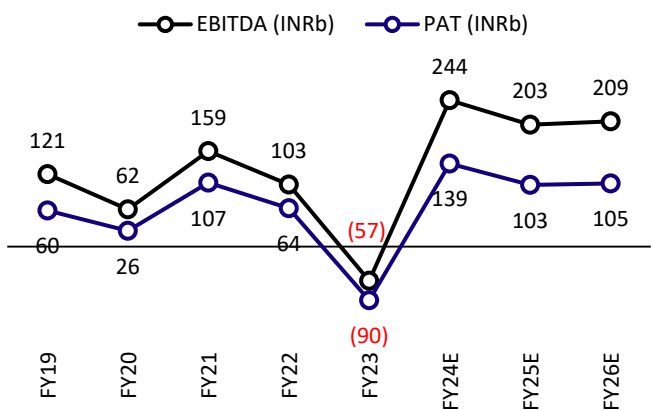
Source: Company, MOFSL

Exhibit 5: GRM trend of HPCL



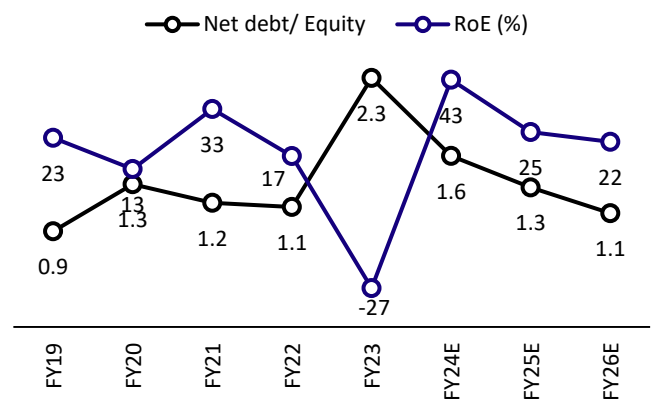
Source: Company, MOFSL

Exhibit 6: EBITDA vs. PAT (standalone)



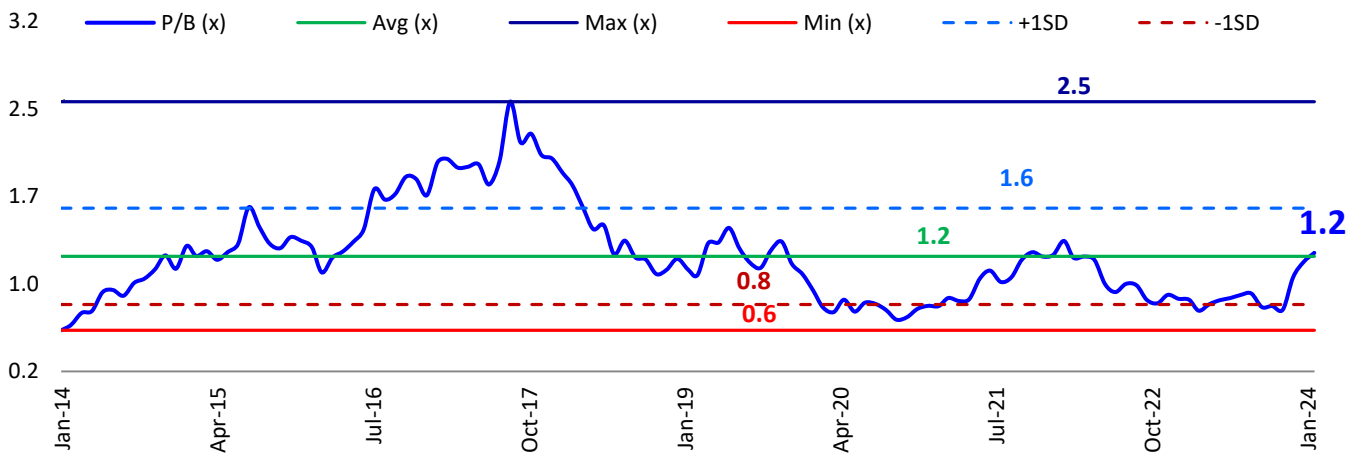
Source: Company, MOFSL

Exhibit 7: Standalone ratios



Source: Company, MOFSL

Exhibit 8: HPCL – One-year forward P/B trades at its long-term average of 1.2x



Source: Company, MOFSL

Financials and valuations

Consolidated - Income Statement

(INR b)

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Total Income from Operations	2,195	2,755	2,691	2,332	3,499	4,407	4,277	4,274	4,407
Change (%)	17%	26%	-2%	-13%	50%	26%	-3%	0%	3%
EBITDA	107	115	57	160	102	-72	247	206	212
Margin (%)	4.9	4.2	2.1	6.9	2.9	-1.6	5.8	4.8	4.8
Depreciation	28	31	34	36	40	46	59	67	73
EBIT	79	84	23	124	62	-118	189	140	139
Interest Charges (incld forex)	6	8	11	10	10	22	26	28	30
Other Income	15	15	17	26	24	15	18	21	24
PBT bef. JVs/associates EO	88	91	28	141	77	-125	180	133	134
EO Items	0	0	-10	0	0	0	0	0	0
Minority Interest	13	9	-5	1	15	25	22	20	19
PBT after EO Exp.	101	100	14	142	91	-100	202	153	153
Tax Rate (%)	28.6	33.4	-92.0	24.9	20.2	30.1	25.2	25.2	25.2
Reported PAT	72	67	26	107	73	-70	151	114	115
Adjusted PAT	72	67	36	107	73	-70	151	114	115
Change (%)	-12%	-7%	-46%	193%	-32%	PL	LP	-25%	0%
Margin (%)	3.3	2.4	1.4	4.6	2.1	-1.6	3.5	2.7	2.6

Consolidated - Balance Sheet

(INR b)

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Equity Share Capital	15	15	15	15	14	14	14	14	14
Total Reserves	240	289	295	366	400	308	418	502	585
Net Worth	255	304	310	381	414	323	433	516	599
Total Loans	205	260	394	427	450	671	711	754	799
Deferred Tax Liabilities	68	74	55	55	60	29	29	29	29
Capital Employed	529	638	759	862	924	1,023	1,173	1,299	1,428
Net Fixed Assets	387	416	489	506	578	681	722	755	782
Capital WIP	40	95	172	253	289	256	306	356	406
Total Investments	129	143	144	151	189	189	189	189	189
Curr. Assets, Loans&Adv.	322	395	337	397	453	447	499	541	600
Inventory	186	204	193	288	355	296	287	287	296
Account Receivables	56	57	39	69	63	68	66	66	68
Cash and Bank Balance	13	2	2	6	3	7	70	113	160
Cash	1	2	2	5	2	5	68	111	158
Bank Balance	12	0	0	1	0	2	2	2	2
Loans and Advances	10	20	18	11	11	11	11	11	11
Others	57	112	84	24	21	64	64	64	64
Curr. Liability & Prov.	368	435	411	479	622	591	584	584	591
Account Payables	158	191	115	178	265	229	222	222	229
Other Current Liabilities	185	223	269	272	332	334	334	334	334
Provisions	25	21	27	29	25	28	28	28	28
Net Current Assets	-46	-40	-74	-82	-169	-144	-85	-43	9
Appl. of Funds	529	638	759	862	924	1,023	1,173	1,299	1,428

Financials and valuations

Ratios

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Basic (INR)									
EPS	50.9	47.2	25.7	75.1	51.4	-49.2	106.7	80.5	80.9
Cash EPS	70.8	68.9	49.4	100.7	79.6	-17.1	148.2	127.5	132.2
BV/Share	179.9	214.2	218.3	268.4	291.8	227.4	304.8	363.6	422.3
DPS	17.0	15.9	9.8	22.8	14.0	0.0	29.3	21.7	22.3
Payout (%)	42.0	43.0	76.0	30.3	27.2	0.0	27.4	27.0	27.5
Valuation (x)									
P/E	8.5	9.2	16.8	5.7	8.4	-8.8	4.0	5.4	5.3
Cash P/E	6.1	6.3	8.7	4.3	5.4	-25.3	2.9	3.4	3.3
P/BV	2.4	2.0	2.0	1.6	1.5	1.9	1.4	1.2	1.0
EV/Sales	0.4	0.3	0.4	0.4	0.3	0.3	0.3	0.3	0.3
EV/EBITDA	7.5	7.6	17.7	6.5	10.4	-17.7	5.1	6.1	5.9
Dividend Yield (%)	3.9	3.7	2.3	5.3	3.2	0.0	6.8	5.0	5.2
FCF per share	30.5	-19.1	-58.7	43.9	26.7	-90.3	63.8	41.5	44.4
Return Ratios (%)									
RoE	31.0	23.9	11.9	30.9	18.4	-19.0	40.1	24.1	20.6
RoCE	15.8	12.9	12.0	14.9	8.3	-7.8	14.5	10.0	9.2
RoIC	17.0	15.1	10.5	20.8	11.1	-16.2	23.9	16.7	15.9
Working Capital Ratios									
Fixed Asset Turnover (x)	4.7	5.2	4.2	3.4	4.4	4.6	4.1	3.7	3.5
Asset Turnover (x)	4.2	4.3	3.5	2.7	3.8	4.3	3.6	3.3	3.1
Inventory (Days)	31	27	26	45	37	24	24	24	24
Debtor (Days)	9	8	5	11	7	6	6	6	6
Creditor (Days)	26	25	16	28	28	19	19	19	19
Leverage Ratio (x)									
Current Ratio	0.9	0.9	0.8	0.8	0.7	0.8	0.9	0.9	1.0
Interest Cover Ratio	12.8	10.7	2.0	12.8	6.3	-5.4	7.2	5.0	4.7
Net Debt/Equity	0.8	0.8	1.3	1.1	1.1	2.1	1.5	1.2	1.1

Consolidated - Cash Flow Statement

(INR b)

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
OP/(Loss) before Tax	101	100	14	142	91	-100	202	153	153
Depreciation	28	31	34	36	40	46	59	67	73
Interest expense	6	8	11	10	10	22	26	28	30
Interest income and dividend	-4	-4	-4	-4	-4	-4	0	0	0
Direct Taxes Paid	-20	-21	-17	-32	-15	-2	-51	-38	-39
MI and others	-11	-4	10	-3	-20	-10	0	0	0
(Inc)/Dec in WC	9	-24	7	29	55	13	4	0	-4
CF from Operations	110	86	55	178	158	-35	241	209	213
(Inc)/Dec in FA	-67	-113	-138	-116	-120	-93	-150	-150	-150
Free Cash Flow	43	-27	-83	62	38	-128	91	59	63
Others	4	9	6	7	9	12	0	0	0
CF from Investments	-66	-111	-142	-123	-137	-114	-150	-150	-150
Inc/(Dec) in Debt	-11	51	115	3	39	213	40	43	45
Interest Paid	-5	-8	-13	-16	-17	-32	-26	-28	-30
Dividend Paid	-28	-17	-17	-15	-32	-20	-42	-31	-32
CF from Fin. Activity	-44	26	87	-53	-23	151	-28	-16	-16
Inc/Dec of Cash	0	1	0	3	-2	3	63	43	47
Opening Balance	1	1	2	2	5	2	5	68	111
Closing Balance	1	2	2	5	2	5	68	111	158

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NOTES

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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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