

Estimate change	↔
TP change	↔
Rating change	↔

Bloomberg	HPCL IN
Equity Shares (m)	2128
M.Cap.(INRb)/(USDb)	871.3 / 9.9
52-Week Range (INR)	457 / 288
1, 6, 12 Rel. Per (%)	-5/16/4
12M Avg Val (INR M)	2664

Financials & Valuations (INR b)

Y/E March	FY25	FY26E	FY27E
Sales	4,341	3,634	3,423
EBITDA	166	222	203
Adj. PAT	67	116	95
Adj. EPS	32	55	45
EPS Gr.	-58	73	-18
BV/Sh.(INR)	240	288	331
Ratios			
Net D:E	1.3	1.0	0.8
RoE (%)	13.7	20.7	14.5
RoCE (%)	8.2	10.8	8.8
Payout (%)	33.2	30.6	28.2
Valuations			
P/E (x)	13.0	7.5	9.1
P/BV (x)	1.7	1.4	1.2
EV/EBITDA	9.3	6.6	7.0
Div. Yield	2.6	5.1	4.1
FCF Yield	5.5	16.9	12.5

Shareholding pattern (%)

As On	Jun-25	Mar-25	Jun-24
Promoter	54.9	54.9	54.9
DII	23.2	23.6	21.5
FII	13.6	12.6	13.2
Others	8.4	9.0	10.4

FII Includes depository receipts

CMP: INR410 **TP: INR520 (+27%)** **Buy**

Inventory losses weigh on 1Q performance

- HPCL's 1QFY26 EBITDA was 9% below our est., led by lower-than-estimated GRM (USD3.1/bbl). GRM, adj. for inventory gains, stood at USD6.5/bbl. Marketing margin stood 10% above estimates at INR7/lit. Resultant PAT was 11% below our est. at INR43.7b.
- The Union Cabinet has approved INR300b in LPG compensation to OMCs, which will be paid in 12 tranches. While the disbursement timeline remains undisclosed, we estimate HPCL to receive ~INR40.5b in both FY26/27 (~27% of total compensation). This will result in ~9% increase in HPCL's FY27E BVPS.
- In our previous note ([link](#)), we highlighted that OMCs are entering the last phase of a rally. Since then, HPCL has delivered only 4% return (peak return of 14%). While MS/HSD marketing margins have corrected recently to an average of INR11.3/INR6.7 per lit in 2Q'td (vs. INR12.7/INR11 per lit in 1Q), they are significantly above our assumption of INR3.3/lit. Further, with current LPG under-recovery per cyl declining to INR75-85 (vs. INR160-170 in 1Q), marketing segment should remain strong. Refining segment reported a weak performance in 1Q, as the inventory loss came in significantly above estimate at USD3.5/bbl. In 2Q'td, HSD cracks have risen 34% QoQ to USD13.3/bbl, while MS cracks have declined 23% QoQ to USD8.7/bbl. Fuel oil cracks have again turned negative, averaging - USD4.8/bbl.
- We continue to prefer HPCL among OMCs due to the following factors: 1) HPCL's higher leverage toward the marketing segment, 2) higher dividend yield as HPCL's capex cycle is tapering off, and 3) start-up of HPCL's multiple mega-projects in the next 12 months providing a push to earnings.
- HPCL currently trades at 1.2x FY27E P/B, at par with its LTA 1yr fwd. P/B. We estimate the company to deliver 15%+ ROE during FY26/27, and estimate a 4% FY27E dividend yield. We reiterate our BUY rating on the stock with our SoTP-based TP of INR520/sh.

Key takeaways from the conference call

- In 1Q, the company achieved a throughput of 6.7mmt (+16% YoY), with an average capacity utilization of 109%.
- Market sales volume for the quarter reached a record 13mmt (including exports) (+3.2% YoY).
- Capacity utilization target for Chhara terminal: FY26/FY27 - **10-15%/35-40%**.
- HPCL has started an EBITDA enhancement program via operational efficiency and targets INR10-15b EBITDA uplift (savings) by Mar'31. 25% savings are locked in and 16% target has already flown in 1Q (~INR0.5b).
- In 1Q, **Russian crude proportion stood at 13.2% only**.
- 1Q LPG under-recovery stood at INR21.5b (INR167/164/155 per cyl UR in Apr/May/Jun). Current level UR results in INR10b in under recovery per quarter.
- In 1Q, INR14b/INR6b inventory loss pertained to refining/marketing. Due to geopolitical tensions, the **company held higher inventories, leading to higher inventory losses**.

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Miss led by weak refining performance

- HPCL's EBITDA came in at INR76.7b, down 9% vs. our estimate, due to a lower-than-estimated GRM, which was 59% below our estimate at USD3.1/bbl.
- Refining throughput was in line at 6.7mmt. Marketing volumes also came in line at 13mmt.
- Marketing margin (including inv.) stood at ~INR7/lit (est. INR6.4/lit).
- LPG under-recovery stood at INR21.5b (down 35% QoQ).
- PAT came in 11% below our est. at INR43.7b. Other income and finance costs were below our estimates.
- In 1Q, HPCL had a forex loss of INR0.7b.
- As of Jun'25, HPCL had a cumulative negative net buffer of INR130b due to the under-recovery on LPG cylinders (INR109b as of Mar'24).
- As of Jun'25, gross debt stood at INR510b (down INR123b QoQ).

Valuation and view

- **HPCL** remains our preferred pick among the three OMCs. We model a marketing margin of INR3.3/lit for both MS and HSD in FY26/27, while the current MS and HSD marketing margins are above INR6.5/lit. We view the following as key catalysts for the stock: 1) the de-merger and potential listing of the lubricant business, 2) the commissioning of its bottom upgrade unit in 2QFY26'end, and 3) the start of its Rajasthan refinery in FY26.
- HPCL currently trades at 1.2x FY27E P/B, which we believe offers a reasonable margin of safety as we estimate FY27E RoE of 15%. **We value the stock at our SoTP-based TP of INR520/sh. Reiterate BUY.**

Standalone - Quarterly Earning Model

Y/E March	(INR b)											
	FY25				FY26E				FY25	FY26E	FY26	Var (%)
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE				
Net Sales	1,138	999	1,105	1,095	1,108	830	840	853	4,337	3,630	895	24%
YoY Change (%)	1.6	4.4	-0.7	-4.4	-2.7	-17.0	-24.0	-22.1	0.0	-16.3	-21.3	
EBITDA	21	28	65	58	77	46	50	50	171	222	84	-9%
Margins (%)	1.8	2.8	5.8	5.3	6.9	5.5	5.9	5.8	3.9	6.1	9.4	
Depreciation	15	15	15	16	15	16	16	17	61	65	15.8	
Forex loss	0	0	5	0	1	0	0	0	4	1	0.0	
Interest	7	9	9	7	7	11	10	10	33	39	9.0	
Other Income	6	6	5	8	5	6	5	11	24	29	6.4	
PBT	5	8	40	43	58	25	28	34	96	145	65.8	-11%
Tax rate (%)	24.5	24.4	24.6	22.1	25.0	25.2	25.2	25.2	23.5	25.1	25.2	
Adj PAT	3.6	6.3	30.2	33.5	43.7	18.8	21.3	25.1	73.6	109.0	49.2	-11%
YoY Change (%)	-94.3	-87.7	471.4	18.0	1,128.5	198.5	-29.5	-25.1	-49.9	48.0	1,282.9	
Key Assumptions												
Refining throughput (mmt)	5.8	6.3	6.5	6.7	6.7	6.7	6.7	6.7	25.3	26.6	6.6	0%
Reported GRM (USD/bbl)	5.0	3.1	6.0	8.5	3.1	6.0	6.5	6.5	5.7	5.5	7.5	-59%
Marketing sales volume incl exports (mmt)	12.6	11.6	12.9	12.7	13.0	12.1	13.4	13.3	49.8	51.8	13.1	-1%
Marketing GM incl inv (INR/litre)	3.0	4.2	5.7	4.5	7.0	4.5	4.4	4.4	4.4	5.1	6.4	10%

SoTP-based valuation

Particulars	Earning metric		Val metric	Multiple	Amount (INR m)
HPCL standalone	FY27E EBITDA	2,01,992	EV/EBITDA	6.5	13,16,985
(-) Standalone FY27E Net Debt					5,26,375
Standalone Market Cap					7,90,609
+ Lubricant business- value unlocking	FY25 EBITDA	10,000	EV/EBITDA	8.0	80,000
+ MRPL	MOFSL TP	29,708			29,708
+ HMEL	FY24 PAT	9,310	P/E	10.0	93,100
+ Chhara terminal	Book Value	12,232	P/B	1.0	12,232
+ HRRL	Equity invested till date		P/B	0.5	98,817
SoTP					11,04,466
(/) shares outstanding					2,128
TP (INR/share)					520

Key assumptions for HPCL

Particulars	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26E	FY26E
Exchange Rate (INR/USD)	70.0	70.9	74.3	74.5	80.4	82.8	84.6	86.0	86.2
Brent Crude (USD/bbl)	70.1	61.2	44.4	80.5	96.1	83.0	78.6	65.4	65.0
Market Sales (MMT)	38.7	39.6	36.6	39.1	43.5	46.8	49.8	51.8	53.9
YoY (%)	5	2	(8)	7	11	8	6	4	4
GRM (USD/bbl)	5.0	1.0	3.9	7.2	12.1	9.1	5.7	5.5	6.5
Singapore GRM (USD/bbl)	4.9	3.2	0.5	5.0	10.7	6.6	3.8	5.2	5.0
Prem/(disc) (USD/bbl)	0	(2)	3	2	1	2	1.9	0.4	1.5
Total Refinery throughput (MMT)	18.4	17.2	16.4	14.0	19.1	22.3	25.3	26.6	26.6
YoY (%)	1%	-7%	-4%	-15%	37%	17%	13%	5%	0%
Refining capacity utilization (%)	117%	109%	104%	88%	85%	91%	103%	109%	109%
Blended marketing margin incld inventory (INR/lit)	4.3	4.0	6.3	4.3	(0.8)	5.5	4.4	5.1	4.5
Consolidated EPS	31.4	17.1	50.1	34.3	-32.8	75.2	31.6	54.7	44.8


Highlights from the management commentary
Operational performance:

- HPCL's core GRM stood at ~USD6.5/bbl (implying ~USD3.5/bbl inventory loss). One Diesel conversion unit was under maintenance, leading to lower core GRM QoQ.
- HPCL achieved a quarterly throughput of 6.7mmt (+16% YoY), with an average capacity utilization of 109%.
- Visakh Refinery posted a record quarterly crude throughput of 4.2mmt at 111% capacity, while Mumbai Refinery recorded 2.5mmt, operating at 106%.
- The company has processed four new crude grades during the quarter.
- The company achieved a high pipeline throughput of 6.7mmt during 1QFY26.
- Market sales volume for the quarter reached a record 13mmt (including exports) (+3.2% YoY).
- Combined sales of Petrol (MS) and Diesel (HSD) stood at 8.11mmt (+1.1% YoY), while total LPG sales (domestic and non-domestic) reached 2.21mmt (+6.6% YoY).
- Recorded its highest-ever quarterly MS sales at 2.62mmt and highest CNG sales at 310tmt.
- Aviation sales reached 291tmt in 1Q (+ 11.4% YoY), with continued market share gains.
- Signed a five-year agreement with NCPOR to supply ATF, Marine Gas Oil, and lubricants for India's Antarctic expeditions

LPG under-recovery (UR):

- The company has been in discussion with the Ministry and remains hopeful for compensation. HPCL has a 27% share in the OMC compensation. If compensation comes up, debt shall be reduced.
- 1Q LPG UR stood at INR21.5b (INR167/164/155 per cyl UR in Apr/May/Jun). Current-level UR results in INR10b in under recovery per quarter.

Russian crude:

- 1Q: 13.2% proportion. Hence, if Russian crude share goes to zero, HPCL will not have a very big impact.
- Proportion of West-African crude increased in 1Q.

Update on ongoing projects:

- LPG cavern (80tmt) (underground LPG storage) in Mangalore is ready and will be commissioned in 2QFY26.
- Bottom Upgradation Unit, Visakh: Pre-commissioning activities have been completed, along with the commissioning of utilities. Inspections by OISD and PESO have also been concluded, with PESO approval granted in Apr'25. The unit is now preparing for commissioning in 2QFY26'end or early 3QFY26.
- Chhara terminal: Breakwater facility is not complete yet. Four planned cargoes post monsoon.
- Capacity utilization target: FY26/FY27 - 10-15%/35-40%.

HP Green R&D Centre (HPGRDC)

- By 30th Jun'25, HPGRDC filed a total of 669 patents, of which 259 have been granted.

Capex

- In 1QFY26, the company incurred capex of INR28.6b.

EBITDA enhancement program via operational efficiency:

- INR10-15b EBITDA uplift (savings) by Mar'31. 25% savings are locked in and 16% target has already flown in 1Q (~INR0.5b).

HRRL

- 88% overall completion has been achieved. Refinery/petchem portions are 95%/73% complete.
- Refinery section is expected to start in a couple of months.
- Total project commitment stands at INR728.1b. Capex of INR592.9b has been incurred.

Network expansion:

- In 1QFY26, 154 retail outlets were commissioned, taking the total to 23,901. Additionally, six new LPG distributors were added, bringing the total to 6,384.
- In 1QFY26, 711 inch-km of steel and 164km of MDPE pipeline were laid under the CGD network. Additionally, 8,024 new domestic PNG connections were added, taking the total to 1,24,484.
- One CBG plant was commissioned during the quarter, taking the total to 16. Additionally, 19 LOIs were issued, bringing the total active LOIs to 127 with a combined capacity of 311.50 TMT.
- A total of 33 new CNG outlets were commissioned in 1QFY26, bringing the total to 2,071. Additionally, 90 retail outlets were solarized, taking the cumulative count to 22,443.

Inventory gain/losses:

- In 1Q, INR14b/INR6b inventory loss pertained to refining/marketing.
- Due to geo-political tensions, the company held higher inventories, leading to higher inventory losses.

CGD

- Sale volume: 32tmt in 1QFY25 (22tmt/27tmt in 1QFY25/4QFY25).

Marketing segment:

- July HSD sales are better than 1Q.

HMEL:

- During 1Q, refinery GRM was at USD7/ bbl (EBITDA: ~INR10b).

Story in charts – 1QFY26

Exhibit 1: Reported GRM stood at USD3.1/bbl, down 39% YoY

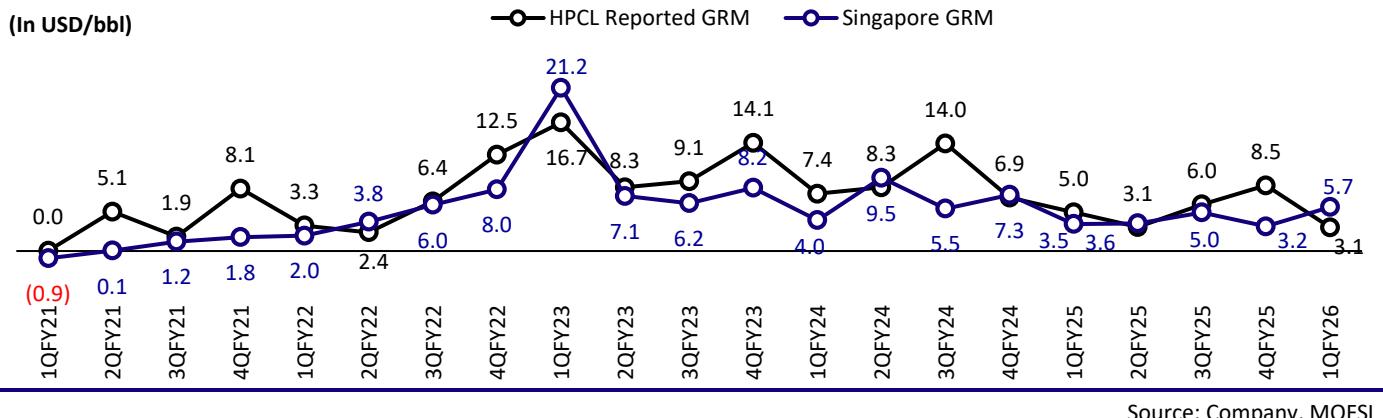


Exhibit 2: Throughput was 6.7mmt, up ~16% YoY

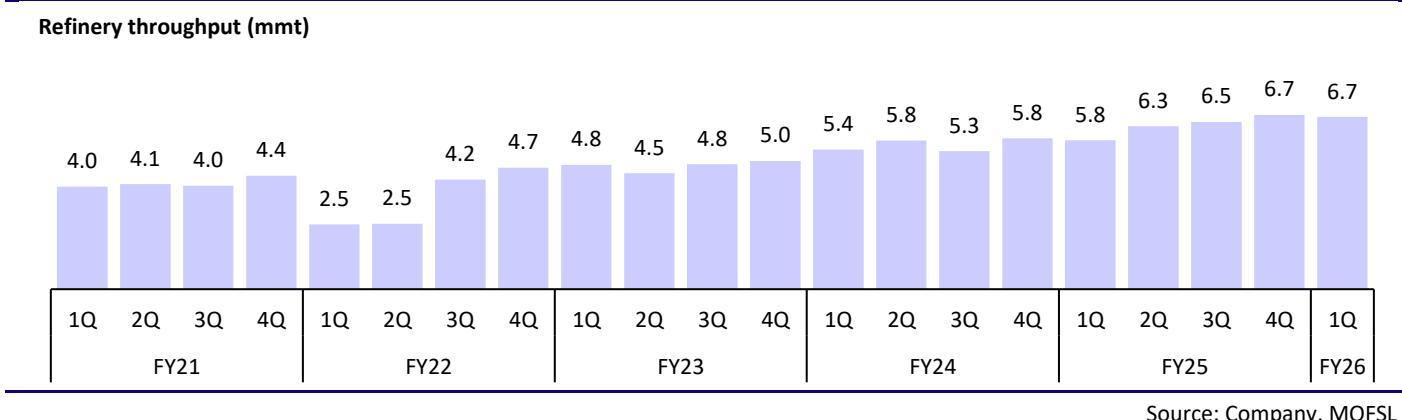
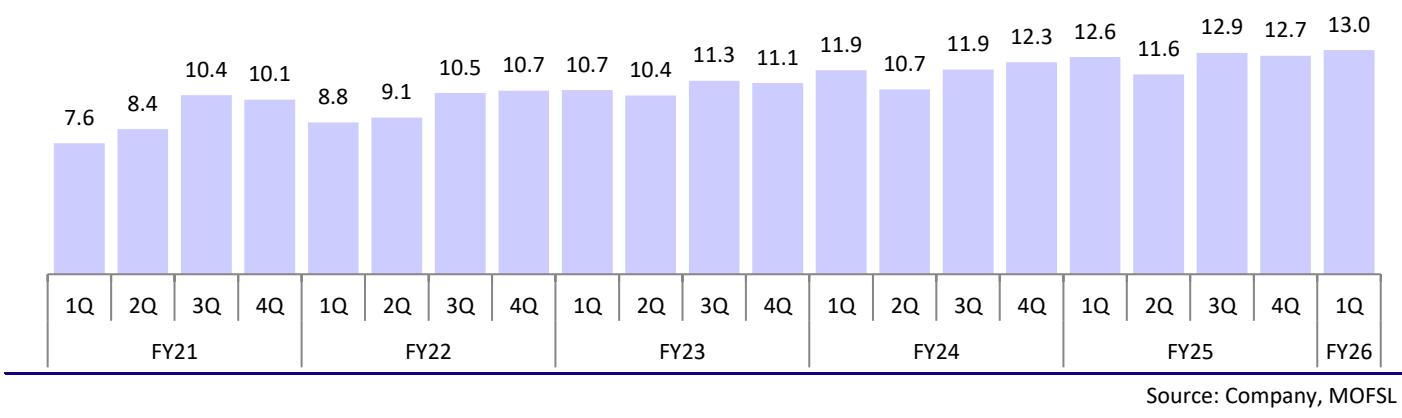
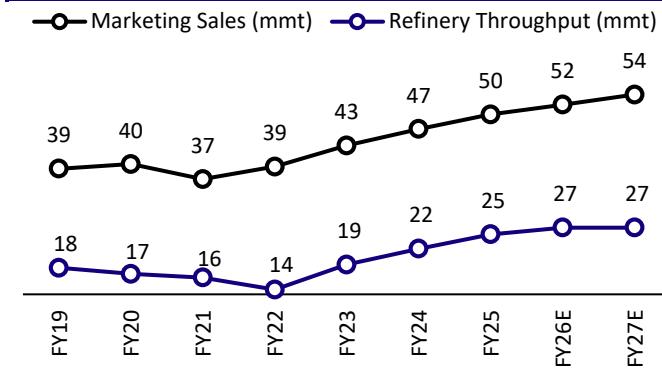


Exhibit 3: Marketing volumes grew ~3% YoY to 13mmt



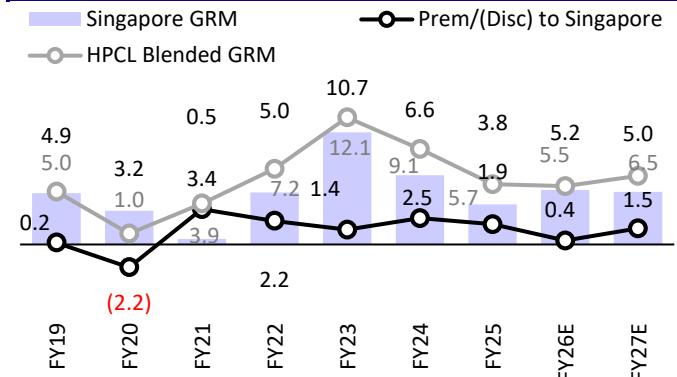
Story in charts

Exhibit 4: Refining throughput/marketing sales of HPCL



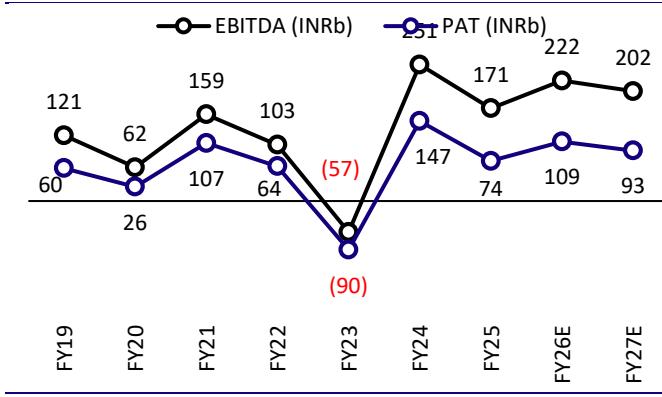
Source: Company, MOFSL

Exhibit 5: GRM trend of HPCL



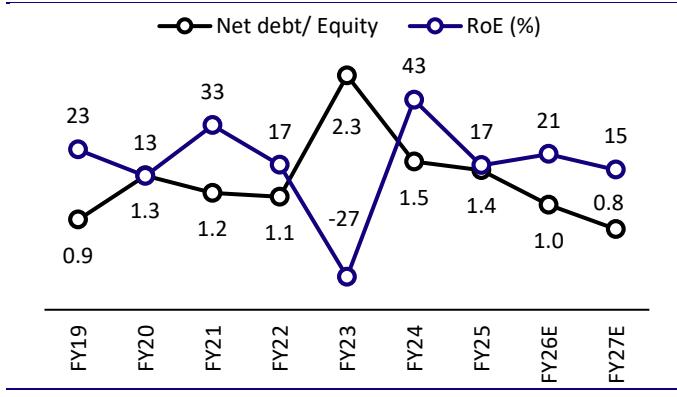
Source: Company, MOFSL

Exhibit 6: EBITDA vs. PAT (standalone)



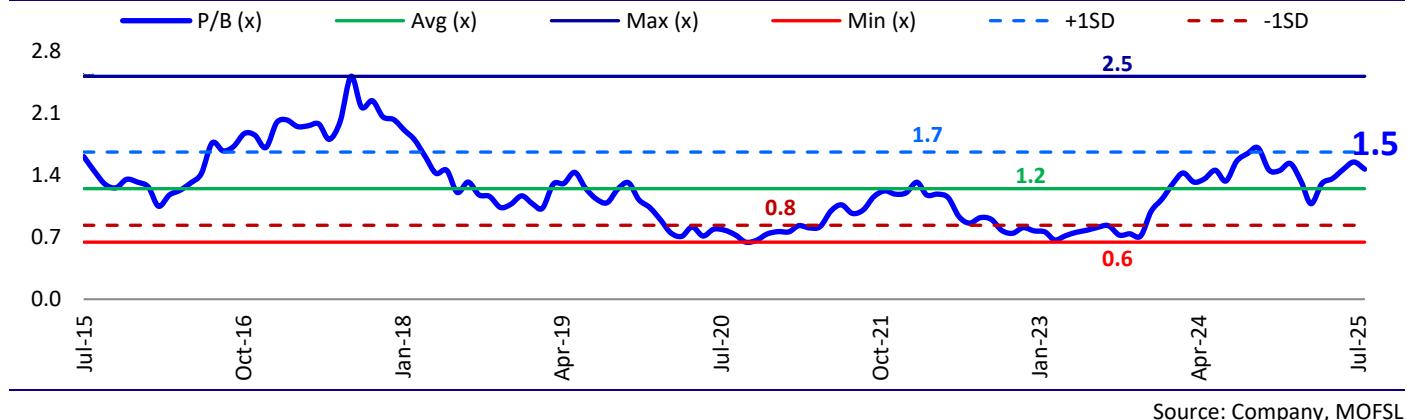
Source: Company, MOFSL

Exhibit 7: Standalone ratios



Source: Company, MOFSL

Exhibit 8: HPCL – One-year forward P/B trades at 1.5x (long-term P/B average at 1.2x)



Source: Company, MOFSL

Financials and valuations

Consolidated - Income Statement					
	FY23	FY24	FY25	FY26E	(INR b) FY27E
Y/E March					
Total Income from Operations	4,407	4,339	4,341	3,634	3,423
Change (%)	26%	-2%	0%	-16%	-6%
EBITDA	-72	249	166	222	203
Margin (%)	-1.6	5.7	3.8	6.1	5.9
Depreciation	46	56	62	67	73
EBIT	-118	193	104	155	130
Interest Charges (incls forex)	22	26	34	35	36
Other Income	15	19	21	24	29
PBT bef. JVs/associates EO	-125	187	91	144	123
EO Items	0	0	0	41	41
JV and Associate Income	25	18	-1	12	4
PBT after EO Exp.	-100	205	90	196	168
Tax Rate (%)	30.1	21.9	25.2	25.2	25.2
Reported PAT	-70	160	67	147	126
Adjusted PAT	-70	160	67	116	95
Change (%)	PL	LP	-58%	73%	-18%
Margin (%)	-1.6	3.7	1.6	3.2	2.8

Consolidated - Balance Sheet					
	FY23	FY24	FY25	FY26E	(INR b) FY27E
Y/E March					
Equity Share Capital	14	14	21	21	21
Total Reserves	308	455	490	592	682
Net Worth	323	469	511	613	704
Total Loans	671	628	664	684	705
Deferred Tax Liabilities	29	69	77	77	77
Capital Employed	1,023	1,167	1,253	1,374	1,485
Net Fixed Assets	681	795	859	891	918
Capital WIP	256	201	180	215	250
Total Investments	189	295	270	270	270
Curr. Assets, Loans&Adv.	447	489	596	602	636
Inventory	296	342	383	321	302
Account Receivables	68	93	118	99	93
Cash and Bank Balance	7	5	3	90	148
Cash	5	3	2	89	147
Bank Balance	2	2	1	1	1
Loans and Advances	11	13	53	53	53
Others	64	36	40	40	40
Curr. Liability & Prov.	591	661	695	646	632
Account Payables	229	273	298	249	235
Other Current Liabilities	334	353	360	360	360
Provisions	28	35	36	36	36
Net Current Assets	-144	-172	-99	-45	4
Appl. of Funds	1,023	1,167	1,253	1,374	1,485

Financials and valuations

Ratios

Y/E March	FY23	FY24	FY25	FY26E	FY27E
Basic (INR)					
EPS	-32.8	75.2	31.6	54.7	44.8
Cash EPS	-11.4	101.5	60.6	86.3	79.0
BV/Share	151.6	220.5	240.3	288.1	330.6
DPS	0.0	21.0	10.5	21.1	16.6
Payout (%)	0.0	27.9	33.2	30.6	28.2
Valuation (x)					
P/E	-12.4	5.4	12.9	7.5	9.1
Cash P/E	-35.9	4.0	6.7	4.7	5.2
P/BV	2.7	1.9	1.7	1.4	1.2
EV/Sales	0.3	0.3	0.4	0.4	0.4
EV/EBITDA	-21.3	6.0	9.2	6.6	7.0
Dividend Yield (%)	0.0	5.1	2.6	5.1	4.1
FCF per share	-60.2	65.3	22.5	69.2	51.4
Return Ratios (%)					
RoE	-19.0	40.4	13.7	20.7	14.5
RoCE	-7.8	15.9	8.2	10.8	8.8
RoIC	-16.2	24.4	10.6	14.5	12.1
Working Capital Ratios					
Fixed Asset Turnover (x)	4.6	3.9	3.5	2.7	2.4
Asset Turnover (x)	4.3	3.7	3.5	2.6	2.3
Inventory (Days)	24	29	32	32	32
Debtor (Days)	6	8	10	10	10
Creditor (Days)	19	23	25	25	25
Leverage Ratio (x)					
Current Ratio	0.8	0.7	0.9	0.9	1.0
Interest Cover Ratio	-5.4	7.6	3.1	4.4	3.6
Net Debt/Equity	2.1	1.3	1.3	1.0	0.8

Consolidated - Cash Flow Statement

(INR b)

Y/E March	FY23	FY24	FY25	FY26E	FY27E
OP/(Loss) before Tax	-100	205	90	196	168
Depreciation	46	56	62	67	73
Interest expense	22	26	34	35	36
Interest income and dividend	-4	-4	-4	0	0
Direct Taxes Paid	-2	-3	4	-49	-42
MI and others	-10	-13	1	0	0
(Inc)/Dec in WC	13	-28	-44	33	10
CF from Operations	-35	239	142	282	244
(Inc)/Dec in FA	-93	-99	-94	-135	-135
Free Cash Flow	-128	139	48	147	109
Others	12	4	-31	0	0
CF from Investments	-114	-130	-106	-135	-135
Inc/(Dec) in Debt	213	-100	26	20	21
Interest Paid	-32	-41	-44	-35	-36
Dividend Paid	-20	-21	-23	-45	-35
CF from Fin. Activity	151	-111	-38	-60	-51
Inc/Dec of Cash	3	-2	-1	87	58
Opening Balance	2	5	3	2	89
Closing Balance	5	3	2	89	147

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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