

Estimate change

TP change

Rating change


Bloomberg	HPCL IN
Equity Shares (m)	1,524
M.Cap.(INRb)/(USD\$b)	361 / 5.1
52-Week Range (INR)	333 / 211
1, 6, 12 Rel. Per (%)	-4/-14/-7
12M Avg Val (INR M)	1668

Financials & Valuations (INR b)

Y/E March	2020E	2021E	2022E
Sales	2,706	2,867	2,947
EBITDA	83.3	121.9	125.8
Adj. PAT	39.8	67.5	66.1
Adj. EPS (INR)	26.1	44.3	43.4
EPS Gr. (%)	(40.4)	69.4	(2.0)
BV/Sh.(INR)	214.0	238.1	261.7

Ratios

Net D:E	0.2	0.5	0.7
RoE (%)	12.6	19.6	17.4
RoCE (%)	7.2	10.4	8.7
Payout (%)	44.4	45.6	45.6

Valuations

P/E (x)	9.1	5.4	5.5
P/BV (x)	1.1	1.0	0.9
EV/EBITDA (x)	6.6	5.3	5.9
Div. Yield (%)	4.1	7.1	7.0
FCF Yield (%)	11.5	(19.1)	(18.3)

Shareholding pattern (%)

As On	Dec-19	Sep-19	Dec-18
Promoter	51.1	51.1	0.0
DII	20.8	21.5	17.6
FII	19.2	18.3	19.2
Others	8.9	9.1	63.2

FII Includes depository receipts

CMP: INR237
TP: INR340 (+44%)
Buy
Poor margins lead miss; expect marketing to outperform

- HPCL's lower-than-expected refining and marketing margins led to an EBITDA miss in 3QFY20. We have cut our FY20 EPS by 21% owing to the huge miss during the quarter and in light of the weak GRM outlook (trimmed GRM from USD4.2/bbl to USD3.0 for 4QFY20) and the lack of improvement in diesel cracks ahead of IMO.
- In 3QFY20, the company recorded higher-than-expected marketing sales volumes, which partially offset lower-than-expected marketing margins.
- HPCL has >50% EBITDA contribution coming from marketing, which should supplement its earnings in the current subdued GRM environment.

EBITDA miss led by lower refining/marketing margins

- Reported EBITDA was lower than our estimate at INR20.4b (v/s INR3.7b in 3QFY19). Total inventory gains stood at INR3.4b (refining clocked gains of INR2.7b and marketing of INR0.7b).
- Adjusted for inventory and one-offs, EBITDA was at INR17.0b (v/s est. INR30.6b and INR38.3b in 3QFY19).
- Forex loss came in at INR1.7b, which resulted in PBT of INR11.5b.
- PAT came in at INR7.5b (v/s est. INR17b and INR2.5b in 3QFY19).
- For 9MFY20, reported EBITDA was 16% lower YoY to INR59.4b, while PAT was down 15% YoY to INR26.1b. Total inventory loss was at INR1.4b (v/s gain of INR1.4b in 9MFY19). Adj. EBITDA was down 13% YoY to INR60.8b.

Marketing remains strong

- Refining throughput for the quarter was down 9% YoY to 4.2mmt (v/s est. -5%) due to shutdowns at Vizag/Mumbai.
- Core GRM was in line at USD1.5/bbl (USD10/bbl in 3QFY19). Reported GRM came in at USD1.8/bbl (v/s est. USD2.1/bbl, USD3.7/bbl in 3QFY19). GRM was lower due to decrease in High-Sulphur crude processing at 55.8% (v/s 60.4% in 1HFY20). Also, HPCL has the highest FO yield (~10%) among Indian refiners, which saw a steep decline during the ahead of IMO 2020.
- Domestic sale of petroleum products was higher 9% YoY at 10.6mmt (v/s est. 8%). Implied gross marketing margins at INR4.1/liter were lower than est. INR5.1 (INR2.0 in 3QFY19 and INR4.5 in 2QFY20).
- Pipeline throughput was lower by 2% YoY at 5.09mmt.
- For 9MFY20, core GRM was lower by 54% YoY to USD2.4/bbl, with refining throughput down 9% YoY, led by shutdowns for BS-VI upgradation. Marketing margin was higher by 13% YoY to INR4.1/liter, while domestic sale of petroleum products was up 5% YoY at 30.1mmt.

Valuation and View

- In the current benign crude price environment, we expect to see structural changes in the pricing of LPG and kerosene, which may bid farewell to under-recoveries in the petroleum sector.
- HPCL trades at ~35% discount to the average since FY15. Valuing it at 1.3x (20% discount to FY15-18 post the reform period, factoring in heavy capex and project execution risk) FY22E PBV, we arrive at a TP of INR340. Maintain Buy.

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

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

Standalone - Quarterly Earning Model

(INR Billion)

Y/E March	FY19				FY20				FY19	FY20E	FY20 3QE	Var. vs est
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Net Sales	676.3	675.2	721.1	679.4	709.9	608.7	707.5	677.8	2,752.0	2,703.9	589.1	20%
YoY Change (%)	26.5	42.1	25.5	11.7	5.0	-9.8	-1.9	-0.2	25.5	-1.7	-18.3	
EBITDA	37.3	30.1	3.7	46.6	14.5	24.5	20.4	23.6	117.6	82.9	32.6	-37%
Margins (%)	5.5	4.5	0.5	6.9	2.0	4.0	2.9	3.5	4.3	3.1	5.5	
EBITDA adj. for inventory and one-offs	14.0	17.3	38.3	37.5	19.9	23.9	17.0	23.6	107.1	84.3	30.6	-45%
Depreciation	7.1	7.4	7.4	8.3	8.2	8.1	8.7	9.0	30.1	33.9	8.4	4%
Forex loss	5.4	8.9	-6.0	-5.0	-1.9	1.2	1.7	0.0	3.2	1.0	0.3	
Interest	1.9	2.0	1.5	1.9	2.1	2.9	2.5	2.4	7.3	9.8	2.2	13%
Other Income	3.1	4.1	3.9	5.2	6.2	3.9	4.0	3.8	16.4	17.8	3.8	7%
PBT	26.0	16.0	4.7	46.7	12.4	16.2	11.5	16.0	93.4	56.0	25.5	-55%
Tax	8.8	5.0	2.2	17.0	4.3	5.6	4.0	5.3	33.1	19.3	8.5	-52%
Rate (%)	33.9	31.6	47.4	36.4	34.6	34.9	35.1	33.3	35.4	34.4	33.3	
Adj PAT	17.2	10.9	2.5	29.7	8.1	10.5	7.5	10.6	60.3	36.7	17.0	-56%
YoY Change (%)	85.9	-37.1	-87.3	69.9	-52.8	-3.6	201.8	-64.2	-5.2	-39.0	586.1	
Key Assumptions												
Refining throughput (mmt)	4.5	4.8	4.6	4.6	3.9	4.6	4.2	4.4	18.4	17.0	4.4	-5%
Core GRM (USD/bbl)	3.2	2.7	10.0	2.1	3.3	2.5	1.5	3.0	4.5	2.6	1.4	3%
Marketing sales volume incl exports (mmt)	9.7	9.1	9.7	10.1	10.1	9.4	10.6	10.2	38.7	40.3	9.8	8%
Marketing GM incl inv (INR/litre)	4.6	4.4	2.0	6.4	3.8	4.5	4.1	4.5	4.3	4.2	5.1	-20%

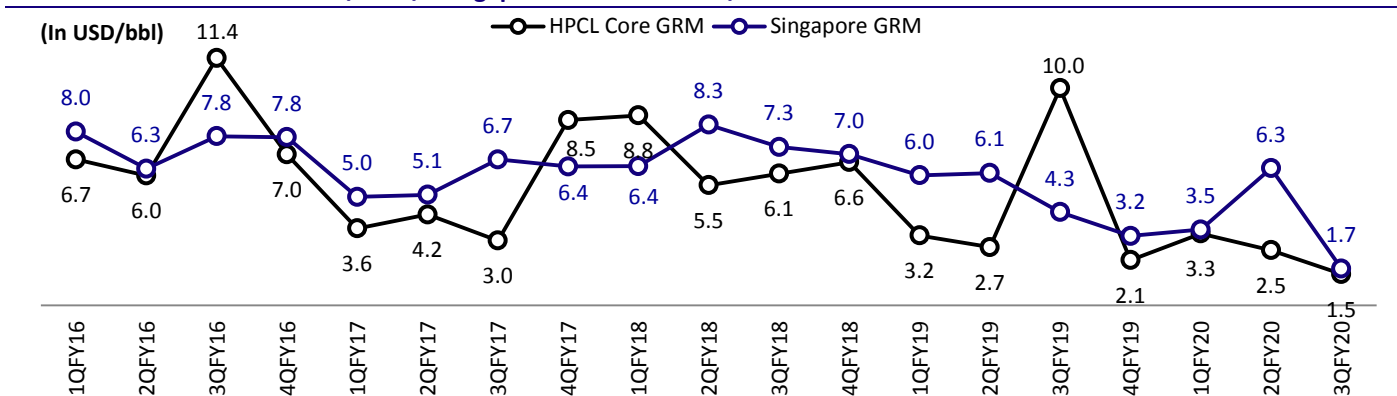
E: MOFSL Estimates

Valuation and View

- During Jul'19-Jan'20, the OMCs increased the price of subsidized LPG by INR63/cylinder. At the rate of INR10/cylinder/month, it would hardly take 15 months for the subsidy to become nil.
- In FY19, OMCs incurred gross under-recoveries of INR433b; of this, LPG accounted for INR315b (~73%). Deregulating LPG would boost the working capital of the OMCs. At end-FY19, the OMCs had total government receivables of INR349b on account of compensation for LPG/kerosene under-recoveries.
- We have cut our FY20 EPS by 21% owing to the huge miss during the quarter and in light of the weak GRM outlook (trimmed GRM from USD4.2/bbl to USD3.0 for 4QFY20) and the lack of improvement in diesel cracks ahead of IMO.
- However, we believe that SG refining margins will likely stabilize and average ~USD5-6/bbl over the medium term as demand recovers slowly and a few high cost refiners take shutdowns amid poor GRMs.
- Our FY20/FY21 estimates for GRM stand at USD6.0/bbl. Our marketing margin estimates are INR4.2/liter for FY20/FY21.
- The stock trades at 5.4x FY21E EPS of INR44.3 and 1.0x FY21E BV of INR238. The company has strong dividend payout of 45.5% with FY19 dividend yield at 6.7%.
- Valuing it at 1.3x (20% discount to FY15-18 post the reform period, factoring in heavy capex and project execution risk) FY22E PBV, we arrive at a TP of INR340.

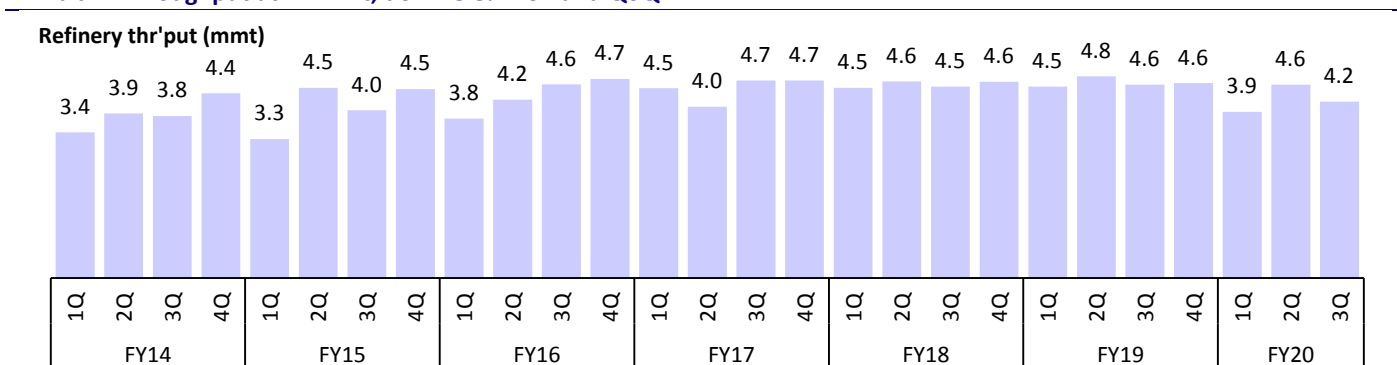
Maintain Buy.

Exhibit 1: Core GRM at USD1.5/bbl v/s Singapore GRM at USD1.7/bbl



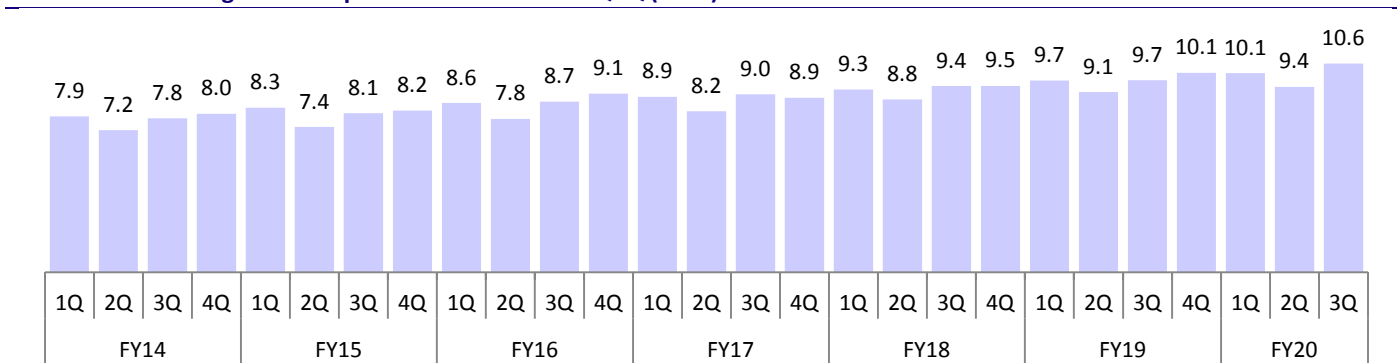
Source: Company, MOFSL

Exhibit 2: Throughput at 4.2mmt, down 8.8% YoY and QoQ



Source: Company, MOFSL

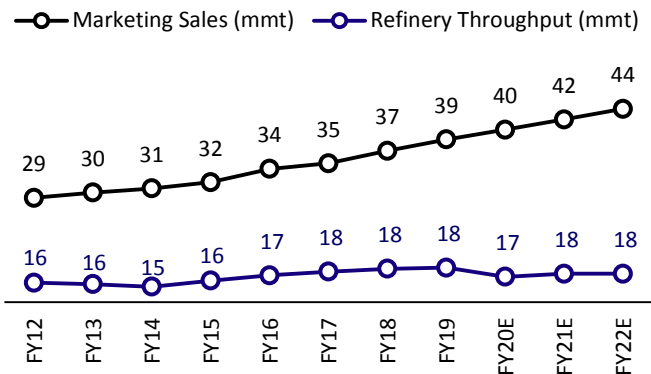
Exhibit 3: Marketing volume up 8.6% YoY and 12.6% QoQ (mmt)



Source: Company, MOFSL

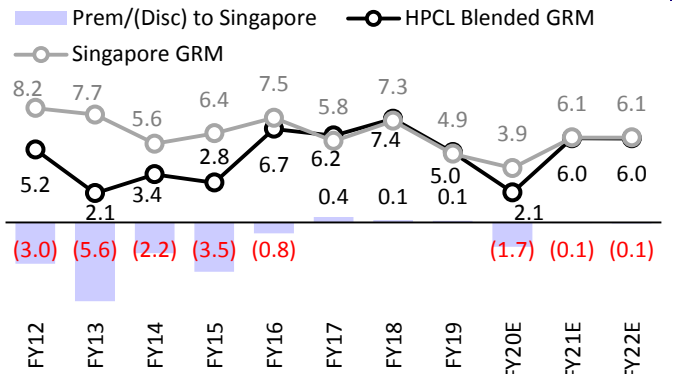
Story in charts

Exhibit 4: Refining throughput/marketing sales of HPCL



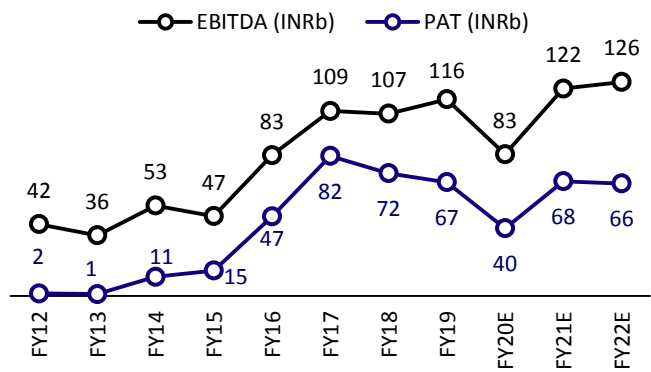
Source: Company, MOFSL

Exhibit 5: GRM trend of HPCL



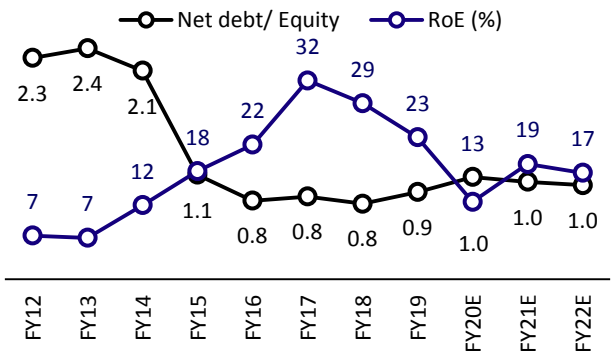
Source: Company, MOFSL

Exhibit 6: EBITDA v/s PAT



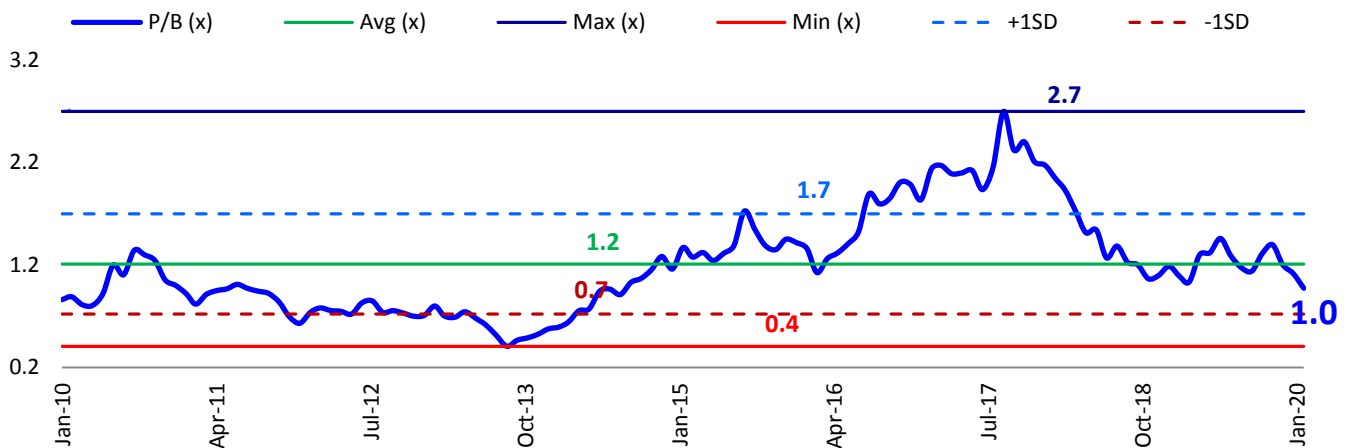
Source: Company, MOFSL

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 Million)

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
Total Income from Operations	24,58,712	23,04,792	17,79,102	18,74,929	21,95,096	27,54,734	27,05,683	28,66,568	29,47,164
Change (%)	8.7	-6.3	-22.8	5.4	17.1	25.5	-1.8	5.9	2.8
Raw Materials	21,59,444	19,90,305	15,69,315	16,36,424	19,44,872	24,80,370	24,61,317	25,74,539	26,43,751
Other Expenses	2,46,127	2,67,496	1,26,992	1,29,709	1,43,095	1,58,693	1,61,025	1,70,105	1,77,619
Total Expenditure	24,05,570	22,57,800	16,96,307	17,66,132	20,87,967	26,39,063	26,22,342	27,44,644	28,21,369
% of Sales	97.8	98.0	95.3	94.2	95.1	95.8	96.9	95.7	95.7
EBITDA	53,142	46,992	82,795	1,08,797	1,07,130	1,15,671	83,342	1,21,923	1,25,795
Margin (%)	2.2	2.0	4.7	5.8	4.9	4.2	3.1	4.3	4.3
Depreciation	30,107	24,967	28,461	27,764	28,344	30,853	31,881	33,347	34,814
EBIT	23,035	22,025	54,334	81,033	78,786	84,818	51,461	88,576	90,981
Int. and Finance Charges (incld forex)	23,929	18,412	7,232	6,092	6,179	7,856	8,091	8,960	10,650
Other Income	14,638	18,649	10,826	13,844	15,279	14,133	9,155	8,724	5,145
PBT bef. JVs/associates EO	13,744	22,263	57,928	88,784	87,886	91,095	52,525	88,340	85,476
EO Items	-493	44	0	0	0	0			
Minority Interest	8	97	9,423	23,190	13,216	9,297	7,214	12,865	13,684
PBT after EO Exp.	13,258	22,404	67,351	1,11,974	1,01,101	1,00,392	59,740	1,01,204	99,160
Total Tax	2,454	7,418	20,604	29,616	28,919	33,486	19,893	33,701	33,020
Tax Rate (%)	18.5	33.1	30.6	26.4	28.6	33.4	33.3	33.3	33.3
Reported PAT	10,804	14,986	46,747	82,358	72,183	66,906	39,846	67,503	66,140
Adjusted PAT	11,297	14,942	46,747	82,358	72,183	66,906	39,846	67,503	66,140
Change (%)	904.4	32.3	212.9	76.2	-12.4	-7.3	-40.4	69.4	-2.0
Margin (%)	0.5	0.6	2.6	4.4	3.3	2.4	1.5	2.4	2.2

Consolidated - Balance Sheet

(INR Million)

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
Equity Share Capital	3,390	3,390	3,390	10,163	15,242	15,242	15,242	15,242	15,242
Total Reserves	1,36,597	1,35,854	1,63,248	2,00,552	2,40,082	2,88,765	3,10,919	3,47,641	3,83,621
Net Worth	1,39,987	1,39,244	1,66,638	2,10,714	2,55,324	3,04,007	3,26,161	3,62,883	3,98,863
Minority Interest	37	1,143	0	0	0	0	0	0	0
Total Loans	4,79,953	3,69,156	2,21,602	1,80,322	2,05,354	2,60,365	2,30,000	3,30,000	3,80,000
Deferred Tax Liabilities	33,421	28,045	50,342	61,493	68,048	73,963	73,963	73,963	73,963
Capital Employed	6,53,398	5,37,588	4,38,582	4,52,529	5,28,726	6,38,334	6,30,124	7,66,845	8,52,825
Net Fixed Assets	3,89,488	4,53,066	3,36,617	3,68,596	3,86,785	4,16,248	3,43,354	3,32,006	3,19,192
Goodwill on Consolidation	167	1,186	167	167	167	167	167	167	167
Capital WIP	61,567	39,498	23,224	18,675	40,105	95,187	2,45,291	3,87,131	5,28,970
Total Investments	56,908	61,128	91,845	1,17,734	1,28,820	1,42,975	1,17,734	1,17,734	1,17,734
Curr. Assets, Loans&Adv.	4,61,830	3,02,569	2,43,677	2,83,590	3,22,457	3,95,228	3,52,614	3,69,863	3,32,338
Inventory	2,48,884	1,60,448	1,33,548	1,86,292	1,86,122	2,04,436	2,29,798	2,43,462	2,50,307
Account Receivables	63,022	40,707	37,763	40,917	55,870	56,674	59,303	62,829	64,595
Cash and Bank Balance	21,789	22,358	1,542	1,364	12,897	2,185	43,591	43,650	-2,487
Loans and Advances	1,28,135	79,056	70,825	5,315	10,430	19,923	19,923	19,923	19,923
Others				49,702	57,138	1,12,010			
Curr. Liability & Prov.	3,16,562	3,19,859	2,56,948	3,50,657	3,67,991	4,34,250	4,29,036	4,40,056	4,45,576
Account Payables	1,49,845	1,26,395	94,648	1,26,997	1,57,800	1,90,534	1,85,321	1,96,340	2,01,861
Other Current Liabilities	1,42,507	1,62,108	1,40,567	1,99,122	1,85,036	2,22,942	2,22,942	2,22,942	2,22,942
Provisions	24,211	31,357	21,733	24,539	25,155	20,774	20,774	20,774	20,774
Net Current Assets	1,45,268	-17,290	-13,271	-67,067	-45,534	-39,022	-76,422	-70,193	-1,13,239
Appl. of Funds	6,53,398	5,37,588	4,38,582	4,52,529	5,28,726	6,38,334	6,30,124	7,66,845	8,52,825

E: MOFSL Estimates

Financials and Valuations

Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
EPS	7.4	9.8	30.7	54.0	47.4	43.9	26.1	44.3	43.4
Cash EPS	27.2	26.2	49.3	72.2	66.0	64.1	47.1	66.2	66.2
BV/Share	91.8	91.4	109.3	138.2	167.5	199.5	214.0	238.1	261.7
DPS	3.4	5.4	9.6	22.8	17.0	15.9	9.7	16.8	16.5
Payout (%)	56.6	67.3	37.5	50.8	44.5	45.5	44.4	45.6	45.6
Valuation (x)									
P/E		24.2	7.7	4.4	5.0	5.4	9.1	5.4	5.5
Cash P/E		9.1	4.8	3.3	3.6	3.7	5.0	3.6	3.6
P/BV		2.6	2.2	1.7	1.4	1.2	1.1	1.0	0.9
EV/Sales		0.3	0.3	0.3	0.3	0.2	0.2	0.2	0.3
EV/EBITDA		15.1	7.0	5.0	5.2	5.4	6.6	5.3	5.9
Dividend Yield (%)	1.5	2.3	4.0	9.6	7.2	6.7	4.1	7.1	7.0
FCF per share	-6.6	86.2	116.0	78.5	19.1	-19.0	27.2	-45.4	-43.3
Return Ratios (%)									
RoE	8.2	10.7	30.6	43.7	31.0	23.9	12.6	19.6	17.4
RoCE	5.1	4.8	10.1	17.9	15.8	12.9	7.2	10.4	8.7
RoIC	3.7	3.2	10.2	18.7	17.0	15.2	11.0	26.7	28.4
Working Capital Ratios									
Fixed Asset Turnover (x)	4.3	3.4	4.9	4.5	4.8	6.1	5.5	5.6	5.5
Asset Turnover (x)	3.8	4.3	4.1	4.1	4.2	4.3	4.3	3.7	3.5
Inventory (Days)	37	25	27	36	31	27	31	31	31
Debtor (Days)	9	6	8	8	9	8	8	8	8
Creditor (Days)	22	20	19	25	26	25	25	25	25
Leverage Ratio (x)									
Current Ratio	1.5	0.9	0.9	0.8	0.9	0.9	0.8	0.8	0.7
Interest Cover Ratio	1.0	1.2	7.5	13.3	12.8	10.8	6.4	9.9	8.5
Net Debt/Equity	2.9	2.1	0.8	0.3	0.2	0.4	0.2	0.5	0.7

Consolidated - Cash Flow Statement

(INR Million)

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
OP/(Loss) before Tax	13,258	22,404	67,351	1,11,974	1,01,101	1,00,392	59,740	1,01,204	99,160
Depreciation	30,107	24,967	28,461	27,764	28,344	30,853	31,881	33,347	34,814
Change in deferred tax liability	-3,918	-5,377	22,298	11,151	6,556	5,914	0	0	0
Direct Taxes Paid	-2,454	-7,418	-20,604	-29,616	-28,919	-33,486	-19,893	-33,701	-33,020
Minority interest	22	1,107	-1,143	0	0	0	0	0	0
(Inc)/Dec in WC	11,229	1,63,127	-24,836	53,619	-10,000	-17,224	78,806	-6,171	-3,091
CF from Operations	48,243	1,98,810	71,526	1,74,891	97,082	86,450	1,50,533	94,680	97,862
CF from Operating incl EO	48,244	1,97,791	72,545	1,74,891	97,082	86,450	1,50,533	94,680	97,862
(Inc)/Dec in FA	-58,313	-66,475	1,04,262	-55,194	-67,963	-1,15,399	-1,09,090	-1,63,840	-1,63,840
Free Cash Flow	-10,069	1,31,315	1,76,807	1,19,698	29,119	-28,949	41,444	-69,160	-65,978
(Pur)/Sale of Investments	7,368	-4,220	-30,717	-25,889	-11,086	-14,155	25,240	0	0
Others	0	0	0	-14,424	-3,960	-4,395	22,779	0	0
CF from Investments	-50,944	-70,695	73,545	-95,507	-83,009	-1,33,948	-61,071	-1,63,840	-1,63,840
Issue of Shares	0	0	0	0	0	0	0	0	0
Inc/(Dec) in Debt	22,586	-1,10,797	-1,47,554	-41,280	25,032	55,011	-30,365	1,00,000	50,000
Dividend Paid	-6,116	-10,082	-17,525	-41,857	-32,118	-30,442	-17,692	-30,782	-30,160
Others	-627	-5,647	-1,828	3,575	4,546	12,218	0	0	0
CF from Fin. Activity	15,843	-1,26,526	-1,66,907	-79,562	-2,541	36,787	-48,057	69,218	19,840
Inc/Dec of Cash	13,142	569	-20,817	-178	11,533	-10,711	41,406	58	-46,137
Opening Balance	8,647	21,789	22,358	1,542	1,364	12,897	2,185	43,591	43,650
Closing Balance	21,789	22,358	1,542	1,364	12,897	2,185	43,591	43,650	-2,487

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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