

Hindustan Petroleum

Inventory losses dent profitability

We maintain ADD on HPCL with a TP of Rs 230 in a owing to an expected recovery in demand for petroleum products and subsequently, refining margins.

- **View on the result:** In 4Q, the EBITDA loss was lower than our estimates owing to better than estimated core GRM (USD 9.3/bbl vs. est. USD 0.8).
- **EBITDA:** 4QFY20 EBITDA loss came at INR 17bn (est. loss INR 24bn) versus INR 19bn in 3QFY20 and INR 52bn in 4QFY19. Refining business' inventory losses were INR 26bn and marketing inventory losses were INR 16bn. Forex losses were INR 10bn. Adjusting for these, core EBITDA comes to INR 34bn (-15.6/+134.3% YoY/QoQ). For FY20, inventory loss/forex loss came to INR 43/8bn and core EBITDA stood at INR 92bn (-19.3% YoY).
- **Refining:** Crude throughput in 4Q stood at 4.5mmt (-1.3/+9.1% YoY/QoQ). Utilisation at Mumbai/Visakh for 4Q stood at 113/116% and at 108/109% for FY20. Core GRM stood at USD 9.3/bbl vs USD 2.2/1.5 in 4QFY19/3QFY20. GRMs improved with higher naphtha, LPG cracks and fuel oil cracks. For FY20, crude throughput and core GRM stood at 17.2mmt (-6.8% YoY) and USD 4.2/bbl (vs. USD 4.6 in FY19).
- **Marketing:** Domestic marketing sales volume was 9.6mmt (-5.3/-9.5% YoY/QoQ). India's petroleum product consumption contracted by 4.8/3.3% YoY/QoQ, thus demonstrating that HPCL lost market share on both quarterly and annual basis. Blended gross margin stood at INR 4.1/lit (-31.2/+8.2% YoY/QoQ) and seems sustainable in the near term.
- **Adjustments in 4Q:** After tax loss of INR 20bn in 4Q has been adjusted for (1) Inventory loss of INR 10bn, and (2) Deferred tax of INR 21bn. Lower demand for crude oil and petroleum products impacted the prices and in turn refining margins. Due to this, part of HPCL's inventory has been valued at net realizable value/replacement costs resulting in a loss of INR 10.0bn. The company moved to the lower tax regime of 25.2% in the quarter and availed benefit of deferred tax that has been adjusted to arrive at APAT.
- **Outlook for FY21/22E:** Standalone crude/marketing throughput is expected to dip by 9.9/9.3% YoY to 15.5/34.3mmt in FY21 and recover subsequently by 54.8/16.1% in FY22 to 24.0/39.8mmt in FY22. Core GRM should decline by 17.8% YoY in FY21, courtesy lower gasoil and gasoline cracks, to USD 3.5. Thereafter in FY22, recover to USD 4.0/bbl (+14.3% YoY). Gross profits, however, should remain intact at current levels, INR 4.6/4.5 per litre in FY21/22 vs INR 4.5 in FY20.
- **Change in estimates:** We raise our standalone FY21/22 EPS estimate by 20.1/6.4% owing to the change in tax rate to 25.2%. We raise our Core GRM estimates by USD 1.7/0.3 per barrel to USD 3.5/4.0 for FY21/22.

Standalone Financial Summary

YE March (INR bn)	4Q FY20	3Q FY20	YoY (%)	4Q FY19	QoQ (%)	FY19	FY20P	FY21E	FY22
Revenues	662	707	(6.5)	679	(2.6)	2,752	2,688	1,913	2,220
EBITDA	(17)	19	NA	52	NA	115	41	70	115
APAT	(21)	7	NA	30	NA	60	6	31	59
AEPS (Rs)	(13.5)	4.9	NA	19.5	NA	39.6	3.7	20.5	38.7
P/E (x)						5.3	12.1	10.2	5.4
EV/EBITDA (x)						4.3	14.9	9.3	5.5
RoE (%)						23.1	9.2	10.4	17.9

Source: Company, HSIE Research

ADD

CMP (as on 16 Jun 2020)	INR 210
Target Price	INR 230
NIFTY	9,914

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 224	INR 230
EPS %	FY21E	FY22E
	20.1	6.4

KEY STOCK DATA

Bloomberg code	HPCL IN
No. of Shares (mn)	1,524
MCap (INR bn) / (\$ mn)	320/4,202
6m avg traded value (INR mn)	1,322
52 Week high / low	INR 329/150

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	2.4	(21.4)	(31.5)
Relative (%)	(4.6)	(3.5)	(16.7)

SHAREHOLDING PATTERN (%)

	Mar-20	Dec-19
Promoters	51.11	51.11
FIs & Local MFs	21.66	20.80
FPIs	17.72	19.16
Public & Others	9.51	8.93
Pledged Shares	0.0	0.0

Source : BSE

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- **View on the consolidated balance sheet:** LT borrowings jumped by 90.6% YoY to INR 231bn, taking the total debt to INR 394bn (+51.3% YoY). Net debt expanded by 63.1% YoY to INR 338bn, which in turn spiked Net Debt/EBITDA to 7.3x (vs. 1.8x in FY19) and Net Debt/Equity to 1.1x (vs. 0.7x in FY19). We believe that higher debt was needed for (1) High inventory build-up amid the low crude prices, and (2) Sluggish demand amid the lockdown in 1QFY21.

Our SOTP target comes to INR 230/sh (5.5x Sep-21E EV/e for standalone refining and marketing businesses and 6.0x Sep-21E EV/e for pipeline business and INR 25/sh for other investments).

Quarterly Financial Snapshot (Standalone)

INR bn	4QFY20	3QFY20	QoQ (%)	4QFY19	YoY (%)	FY20	FY19	YoY (%)
Net Sales	662	707	(6.5)	679	(2.6)	2,688	2,752	(2.3)
Raw Material and Traded goods	626	646	(3.1)	586	6.8	2,475	2,479	(0.2)
Employee Expenses	8	8	9.1	7	14.7	32	29	8.7
Other Expenses	44	35	25.3	34	28.5	139	129	7.9
EBITDA	(17)	19	NA	52	NA	41	114	(64.0)
Core EBITDA*	34	14	NA	40	NA	92	114	(19.3)
Depreciation	8	9	(6.3)	8	(2.1)	33	30	9.7
EBIT	(25)	10	NA	43	NA	8	84	(90.3)
Other Income	4	4	5.4	5	(18.8)	18	16	12.4
Interest Cost	3	3	33.7	2	80.3	11	7	49.0
PBT	(24)	12	NA	47	NA	16	93	(83.2)
Tax	(25)	4	NA	17	(244.4)	(11)	33	NA
RPAT	0	7	(96.4)	30	(99.1)	26	60	(56.2)
EO (Loss) / Profit (Net Of Tax)	21	-	NA	-	NA	21	-	NA
APAT	(21)	7	NA	30	NA	6	60	(90.7)
AEPS	(13.5)	4.9	NA	19.5	NA	3.7	39.6	(90.7)

Source: Company, HSIE Research | *Adjusting for inventory and forex loss

Key Operational Metrics (Standalone)

	4Q FY20	3Q FY20	QoQ (bps)	4Q FY19	YoY (bps)	FY20	FY19	YoY (bps)
Refinery Throughput (mnT)	4.5	4.2	9.1	4.6	(1.3)	17.2	18.4	(6.8)
Pipeline Throughput (mnT)	5.7	5.1	12.4	5.6	2.0	21.2	21.5	(1.5)
Marketing Throughput (mnT)	9.6	10.6	(9.5)	10.1	(5.3)	39.6	38.7	2.4
Core GRM (USD/bbl)	9.3	1.5	535.1	2.2	328.9	4.2	4.6	(8.4)
Inventory Gain/(Loss) (USD/bbl)	(10.5)	0.3	NA	2.4	NA	(3.1)	0.4	NA
Reported GRM (USD/bbl)	(1.2)	1.8	NA	4.5	NA	1.0	5.0	NA
Exchange Gain/(Loss) (INR bn)	(10)	1	NA	2	NA	(8)	(6)	NA
Adventitious Gain/(Loss) (INR bn)	(41)	3	NA	9	NA	(43)	6	NA
Debt (INR bn)*	430	286	50.5	272	57.9	430	272	57.9

Source: Company, HSIE Research *As at date

Change in estimates (Standalone)

INR bn	FY21E			FY22E		
	Old	New	% Ch	Old	New	% Ch
Revenues	1,984	1,913	(3.6)	2,211	2,220	0.4
EBITDA	67	70	3.8	120	115	(3.9)
APAT	26	31	20.1	55	59	6.4
AEPS (INR/sh)	17.1	20.5	20.1	36.4	38.7	6.4

Source: Company, HSIE Research

Financials

Consolidated Income Statement

YE Mar (INR bn)	FY17	FY18	FY19	FY20	FY21E	FY22E
Revenues	1,875	2,195	2,755	2,691	1,916	2,223
<i>Growth (%)</i>	0.2	17.1	25.5	(2.3)	(28.8)	16.0
Material Expenses	1,636	1,945	2,480	2,478	1,684	1,939
Employee Expenses	30	29	30	32	34	36
Other Operating Expenses	100	114	129	134	123	128
EBIDTA	109	107	116	47	75	121
<i>EBIDTA Margin (%)</i>	5.8	4.9	4.2	1.7	3.9	5.4
<i>EBITDA Growth (%)</i>	2.3	(1.5)	8.0	(59.7)	62.0	59.9
Depreciation	28	28	31	34	33	39
EBIT	81	79	85	13	42	82
Other Income Incl EO	14	15	14	17	16	15
Interest	6	6	8	11	14	15
PBT	89	88	91	18	45	82
Share of profit of JV and associates	23	13	9	(5)	3	6
PBT (including profit from JV and associates)	112	101	100	14	47	88
Tax	30	29	33	(13)	12	22
PAT	82	72	67	26	36	66
EO (Loss) / Profit (Net Of Tax)	-	-	-	23	-	-
APAT	82	72	67	3	36	66
<i>PAT growth (%)</i>	67.3	(12.4)	(7.3)	(95.4)	1,057.0	85.5
AEPS	54.0	47.4	43.9	2.0	23.3	43.2
<i>AEPS growth (%)</i>	67.3	(12.3)	(7.3)	(95.4)	1,057.0	85.5

Source: Company, HSIE Research

Consolidated Balance Sheet

YE Mar (INR bn)	FY17	FY18	FY19	FY20P	FY21E	FY22E
SOURCES OF FUNDS						
Share Capital	10	15	15	15	15	15
Other equity	201	240	289	295	319	364
Total Shareholders' Funds	211	255	304	310	334	380
Long-term Debt	71	97	121	231	314	334
Short-term Debt	109	109	139	163	171	146
Total Debt	180	205	260	394	485	481
Deferred Taxes	61	68	74	55	27	28
Long Term Provisions & Others	160	147	178	237	237	237
TOTAL SOURCES OF FUNDS	613	676	817	995	1,084	1,125
APPLICATION OF FUNDS						
Net Block	369	387	416	490	426	645
CWIP	19	40	95	172	233	37
Investments	67	79	92	91	89	91
LT Loans & Advances	4	7	11	14	16	9
Other Non-current Assets	14	18	23	27	28	29
Total Non-current Assets	473	531	638	793	793	811
Inventories	186	186	204	193	133	153
Debtors	41	56	57	39	39	45
Cash & Equivalents	52	63	53	56	110	124
Other Current Assets	51	60	121	88	123	124
Total Current Assets	331	365	435	376	405	447
Creditors	127	158	191	115	119	137
Other Current Liabilities	63	63	65	59	(4)	(4)
Total Current Liabilities	190	221	256	174	114	132
Net Current Assets	140	144	179	202	291	314
TOTAL APPLICATION OF FUNDS	613	676	817	995	1,084	1,125

Source: Company, HSIE Research

Consolidated Cash Flow

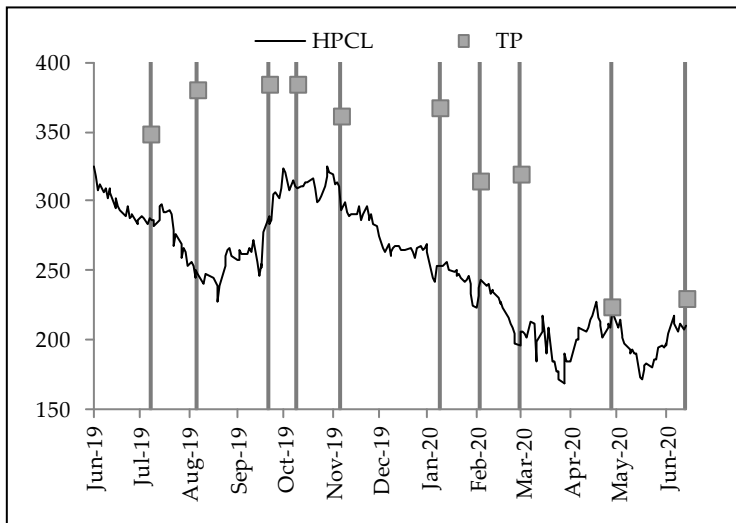
YE Mar (INR bn)	FY17	FY18	FY19	FY20P	FY21E	FY22E
Reported PBT	112	101	100	14	47	88
Non-operating & EO Items	(14)	(15)	(14)	(17)	(16)	(15)
Interest Expenses	6	6	8	11	14	15
Depreciation	28	28	31	34	33	39
Working Capital Change	(91)	7	(44)	(21)	(34)	(9)
Tax Paid	(18)	(22)	(28)	(6)	(39)	(21)
OPERATING CASH FLOW (a)	23	105	53	15	5	96
Capex	(55)	(68)	(115)	(183)	(31)	(61)
Free Cash Flow (FCF)	(32)	37	(62)	(169)	(27)	35
Investments	(25)	(12)	(13)	2	1	(2)
Non-operating Income	14	15	14	17	16	15
Others	(3)	(7)	(9)	(7)	(3)	6
INVESTING CASH FLOW (b)	(69)	(72)	(123)	(172)	(17)	(42)
Debt Issuance/(Repaid)	27	25	55	133	91	(5)
Interest Expenses	(6)	(6)	(8)	(11)	(14)	(15)
FCFE	(12)	56	(15)	(47)	51	16
Share Capital Issuance	(0)	5	-	-	-	-
Dividend	(37)	(31)	(29)	(18)	(11)	(21)
Others	63	(15)	42	56	0	0
FINANCING CASH FLOW (c)	47	(22)	60	160	66	(40)
NET CASH FLOW (a+b+c)	1	10	(10)	3	54	14
EO Items, Others						
Closing Cash & Equivalents	52	63	53	56	110	124

Consolidated Key Ratios

	FY17	FY18	FY19	FY20P	FY21E	FY22E
PROFITABILITY %						
EBITDA Margin	5.8	4.9	4.2	1.7	3.9	5.4
EBIT Margin	4.3	3.6	3.1	0.5	2.2	3.7
APAT Margin	4.4	3.3	2.4	1.0	1.9	3.0
RoE	43.7	31.0	23.9	8.6	11.0	18.4
Core RoCE	15.0	11.2	9.7	0.5	4.5	7.7
RoCE	16.0	11.8	9.6	3.4	4.4	6.9
EFFICIENCY						
Tax Rate %	33.4	32.9	36.8	58.3	26.8	27.0
Asset turnover (x)	0.2	0.2	0.2	0.2	0.3	0.4
Inventory (days)	36	31	27	26	25	25
Debtor (days)	8	9	8	5	7	7
Other Current Assets (days)	10	10	16	12	24	20
Payables (days)	28	30	28	17	26	26
Other Curr Liab & Prov (days)	12	11	9	8	(1)	(1)
Cash conversion cycle (days)	14	10	14	19	31	28
Net Debt/EBITDA (x)	1.2	1.3	1.8	7.3	5.0	3.0
Net D/E	0.6	0.6	0.7	1.1	1.1	0.9
Interest Coverage	13.3	12.8	10.8	1.1	3.0	5.6
PER SHARE DATA						
EPS (Rs)	54.0	47.4	43.9	2.0	23.3	43.2
CEPS (Rs)	72.2	66.0	64.1	24.1	45.1	68.5
DPS (Rs)	24.1	20.5	19.1	11.7	7.2	13.6
BV (Rs)	138.1	167.5	199.5	203.3	219.4	249.0
VALUATION						
P/E (x)	4.1	4.6	5.0	109.3	9.4	5.1
P/Cash EPS (x)	3.0	3.3	3.4	9.1	4.9	3.2
P/BV (x)	1.6	1.3	1.1	1.1	1.0	0.9
EV/EBITDA (x)	4.3	4.5	4.7	14.5	9.4	5.7
EV/Revenue (x)	0.2	0.2	0.2	0.3	0.4	0.3
OCF/EV (%)	4.9	21.9	9.8	2.2	0.7	13.9
FCFF/EV (%)	(7.0)	7.7	(11.5)	(25.1)	(3.8)	5.1
FCFE/M CAP (%)	(3.5)	16.6	(4.5)	(13.9)	15.1	4.8
Dividend Yield (%)	10.9	9.3	8.7	5.3	3.3	6.2

Source: Company, HSIE Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
9-Jul-19	288	BUY	349
9-Aug-19	251	BUY	381
22-Sep-19	245	BUY	385
11-Oct-19	311	BUY	385
9-Nov-19	294	BUY	362
10-Jan-20	252	BUY	368
6-Feb-20	237	BUY	315
2-Mar-20	198	BUY	320
29-Apr-20	212	ADD	224
17-Jun-20	210	ADD	230

From 2nd March 2020, we have moved to new rating system

Rating Criteria

- BUY: >+15% return potential
 ADD: +5% to +15% return potential
 REDUCE: -10% to +5% return potential
 SELL: >10% Downside return potential

Disclosure:

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