

CMP: ₹ 232

Target: ₹ 275 (19%)

Target Period: 12 months

February 13, 2023

BUY

Capex to boost refining segment, going ahead...

About the stock: Hindustan Petroleum Corporation (HPCL) is one of India's largest public sector refining & marketing companies.

- The company operates more than 19000 retail outlets
- Petrol & diesel together historically contributed more than 60% of total sales

Q3FY23 Results: HPCL's results were above our estimates on all fronts.

- Revenue was up 12% YoY, 1.7% QoQ to ₹ 116126.6 crore (I-direct estimate: ₹ 106283 crore). Product sales grew 10% YoY, 11% QoQ to 11 MMT
- Reported GRMs were at US\$9.1/bbl while throughput was up 14% YoY, 7.6% QoQ to 4.83 MMT. As per our understanding, the marketing segment would have likely turned profitable, which was not seen with the other OMCs. EBITDA came in at ₹ 1671.6 crore (I-direct estimate: ₹ 533.6 crore)
- Hence, PAT for the quarter was at ₹ 172.4 crore vs. a net Loss of ₹ 2172 crore in the previous quarter (I-direct estimated net loss: ₹ 439 crore)

What should investors do? GRMs are likely to remain range bound in the current quarter and marketing margins would be a key monitorable. HPCL's refining capacity is expected to increase with expansion plans at its WOD Visakh refinery (from 8.3 MMTPA to 15 MMTPA) and a refinery cum petrochemical complex (9 MMTPA with a 74% stake) in Rajasthan.

- We change our rating on the stock from HOLD to **BUY**

Target Price and Valuation: We value HPCL at ₹ 275 i.e. average of P/BV multiple: ₹ 250/share (~1x P/BV on FY25E book value) and P/E multiple: ₹ 300/share (~5x P/E on FY25E EPS).

Key triggers for future price performance:

- Crude throughput to improve with increased capacity getting commissioned
- Product cracks sustaining at higher level and passing on higher crude oil costs to customers
- Consistent dividend payout

Alternate Stock Idea: Apart from HPCL, in our oil & gas coverage we also like Reliance Industries (RIL).

- RIL is one of India's biggest conglomerates with a presence in oil refining & marketing and petrochemicals, oil & gas exploration, retail, digital services, media, etc, making it a well-diversified business entity.
- BUY with a target price of ₹ 3050



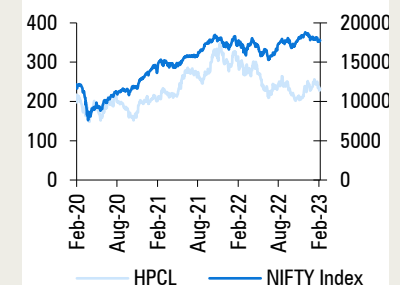
Particulars

Particular	Amount
Market Capitalization (₹ Crore)	32,919.4
Total Debt (FY22) (₹ Crore)	46,590.3
Cash and Investments (FY22)	131.0
EV (₹ Crore)	79,378.7
52 week H/L	354/200
Equity capital (₹ Crore)	1,418.9
Face value (₹)	10.0

Shareholding pattern

(in %)	Mar-22	Jun-22	Sep-22	Dec-22
Promoter	54.9	54.9	54.9	54.9
FII	19.9	18.2	16.7	15.7
DII	15.1	16.4	18.0	19.6
Others	10.1	10.5	10.4	9.8

Price Chart



Recent event & key risks

- Key Risk:** (i) Lower than expected GRMs, (ii) Inability to pass on higher oil costs to customers

Research Analyst

Harshal Mehta
harshal.mehta@icicisecurities.com

Payal Shah
shah.payal@icicisecurities.com

Key Financial Summary

(Year-end March)	FY20	FY21	FY22	5 yr CAGR (FY17-22E)	FY23E	FY24E	FY25E	3 yr CAGR (FY22-25E)
Revenues (₹ crore)	2,87,407.3	2,70,326.3	3,73,896.7	11.8	4,53,079.0	4,09,678.9	4,35,713.2	5.2
EBITDA (₹ crore)	5,123.2	15,925.4	10,175.9	(0.8)	(7,500.8)	16,181.7	17,147.8	19.0
Net Profit (₹ crore)	2,637.3	10,663.9	6,382.6	0.6	(9,469.3)	8,295.4	9,018.1	12.2
EPS (₹)	17.3	70.6	44.9		(66.7)	58.5	63.6	
P/E (x)	13.4	3.3	5.2		(3.5)	4.0	3.7	
Price / Book (x)	1.2	1.0	0.9		1.1	0.9	0.8	
EV/EBITDA (x)	15.3	4.8	7.8		(12.8)	5.9	5.5	
RoCE (%)	2.5	15.6	7.3		(12.9)	10.5	10.5	
RoE (%)	9.1	29.5	16.5		(32.4)	23.9	22.0	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter & conference call highlights

Q3FY23 Results: Marketing margins improve significantly as per our understanding

- Reported GRMs at US\$9.1/bbl were lower than I-direct estimates of US\$12/bbl. However, marketing profitability was better than our estimate of a loss, as per our understanding
- The company did not disclose refining inventory details. We estimate GRMs at US\$12/bbl, US\$10/bbl, US\$8/bbl in FY23E, FY24E, and FY25E, respectively, taking into account recent product cracks trend
- On account of an increase in refining capacity, we estimate crude throughput of 19.1 MMT, 22.3 MMT and 29.4 MMT for FY23E, FY24E and FY25E, respectively
- We estimate marketing sales at 41.8 MMT, 43.7 MMT and 45.7 MMT in FY23E, FY24E and FY25E, respectively

Peer comparison

Exhibit 1: Peer Comparison

Sector / Company	CMP (₹)	TP (₹)	Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
					FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
BPCL (BHAPET)	343	380	Hold	73,040	91.0	43.7	5.2	3.8	7.9	65.8	5.8	6.3	13.0	14.8	13.9	2.7	34.9	18.5	2.2
HPCL (HINPET)	232	275	Buy	32,919	70.6	44.9	-66.7	3.3	5.2	-3.5	4.8	7.8	-12.8	15.6	7.3	-12.9	29.5	16.5	-32.4
Indian Oil Corp (INDOIL)	81	90	Hold	1,14,382	15.5	17.1	5.2	5.2	4.7	15.5	3.0	2.6	5.0	13.3	12.9	4.0	19.8	18.4	5.8

Source: Company, ICICI Direct Research

Exhibit 2: Variance Analysis

	Q3FY23	Q3FY23E	Q3FY22	YoY (%)	Q2FY23	QoQ (%)	Comments
Total Revenues	1,16,126.6	1,06,282.3	1,03,422.4	12.3	1,14,172.3	1.7	
Raw materials costs	1,03,125.8	94,178.1	90,627.1	13.8	1,04,550.9	-1.4	
Employees Cost	716.3	665.6	622.1	15.2	739.5	-3.1	
Other Expenses	10,612.9	10,905.0	10,302.5	3.0	10,379.7	2.2	
Total Expenditure	1,14,455.0	1,05,748.7	1,01,551.7	12.7	1,15,670.1	-1.1	
EBITDA	1,671.6	533.6	1,870.7	-10.6	-1,497.9	-211.6	Higher than estimates on account of likely better marketing performance
EBITDA margins (%)	1.4	0.5	1.8	-37 bps	-1.3	275 bps	
Depreciation	1,110.5	1,157.3	1,024.7	8.4	1,080.9	2.7	
EBIT	561.2	-623.7	846.0	-33.7	-2,578.8	-121.8	
Interest	681.7	413.2	235.8	189.1	595.0	14.6	
Other Income	288.9	450.0	550.4	-47.5	280.5	3.0	
Extra Ordinary Item	0.0	0.0	0.0	NA	0.0	NA	
PBT	168.4	-586.9	1,160.7	-85.5	-2,893.2	-105.8	
Total Tax	-4.0	-147.9	291.8	-101.4	-721.1	-99.4	
PAT	172.4	-439.0	868.9	-80.2	-2,172.1	-107.9	

Key Metrics

Exchange rate (₹/\$)	82.2	82.2	75.0	9.7	79.8	3.0	
Throughput (mmt)	4.83	4.75	4.2	13.9	4.5	7.6	Marginally higher than estimates
Sales (mmt)	11.0	10.4	10.0	10.1	9.9	10.9	Higher than estimates
GRM (\$/barrel)	9.1	12.0	6.4	43.0	8.4	8.8	Lower than estimates

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

(\$ Crore)	FY23E			FY24E			FY25E			Comments
	Old	New	Change	Old	New	Change	Old	New	Change	
Revenue	430190.3	453079.0	5.3	403445.5	426754.1	5.8	-	439566.5	-	
EBITDA	-8667.1	-7,500.8	-13.5	13129.5	18,161.9	38.3	-	17,531.8	-	We revise GRM and marketing profitability estimates. We realign FY23E estimates post Q3FY23 results
EBITDA Margin (%)	-2.0	-1.7	36bps	3.3	4.3	100bps	-	4.0	-	
PAT	-9567.5	-9,469.3	-1.0	6012.4	9,776.6	62.6	-	9,305.3	-	
EPS (₹)	-67.4	-66.7	-1.0	42.4	68.9	62.6	-	65.6	-	

Source: ICICI Direct Research

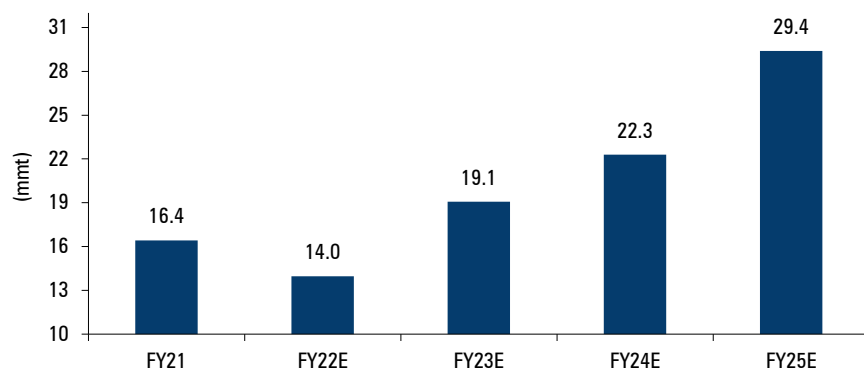
Exhibit 4: Assumptions

	Current					Earlier			Comments
	FY21	FY22	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	
Exchange rate (₹/\$)	74.0	74.6	80.2	82.2	82.2	78.7	79.0	-	
Throughput (mmt)	16.4	14.0	19.1	25.6	30.2	19.9	24.5	-	Revise throughput in line with capacity expansion plans
Sales (mmt)	35.2	37.5	41.9	43.8	45.7	40.9	42.7	-	
GRM (\$/barrel)	3.9	7.2	12.1	10.0	8.0	9.5	8.0	-	We revise GRM estimates taking into account current product cracks trend

Source: ICICI Direct Research

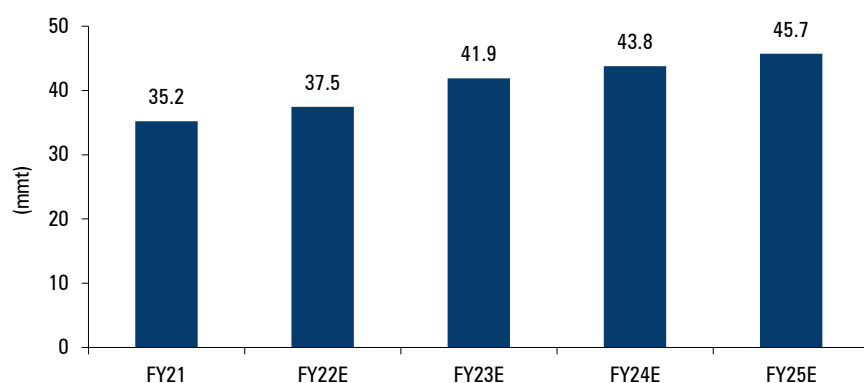
Story in charts

Exhibit 5: Oil throughput trend



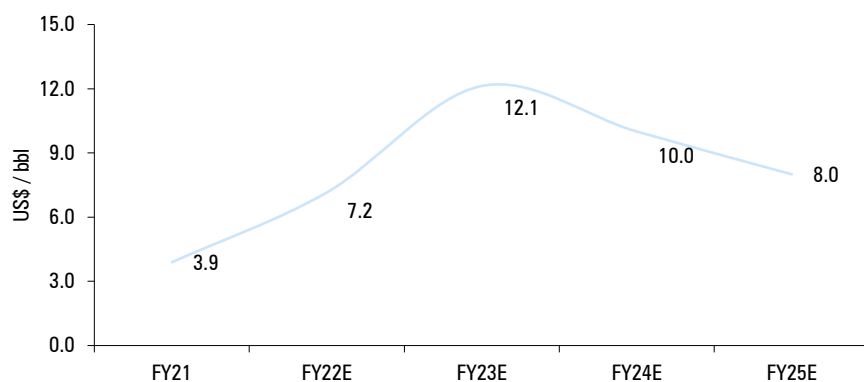
Source: Company, ICICI Direct Research

Exhibit 6: Marketing sales trend



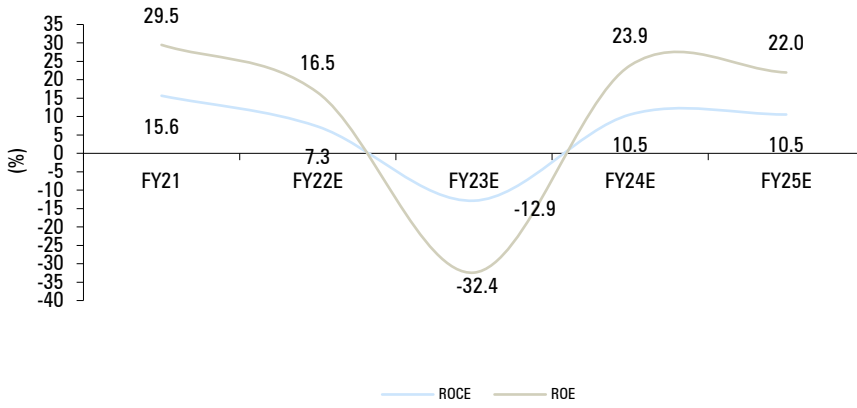
Source: Company, ICICI Direct Research

Exhibit 7: Refining margin trend



Source: Company, ICICI Direct Research

Exhibit 8: Return ratios



Source: Company, ICICI Direct Research

Financial Summary

Exhibit 9: Profit and loss statement				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
Revenue	373896.7	453079.0	409678.9	435713.2
Growth (%)	38.3	21.2	-9.6	6.4
(Inc.)/(Dec.) in stock in trade	-629.6	3559.5	0.0	0.0
Raw material Costs	69435.9	119259.5	102005.9	127497.0
Purchase of Products	253209.4	291018.8	243168.1	240910.1
Employee Costs	2982.5	2955.3	3103.1	3258.3
Other Expenditure	38722.8	43786.8	45220.0	46900.0
Op. Expenditure	363720.9	460579.8	393497.2	418565.4
EBITDA	10175.9	-7500.8	16181.7	17147.8
Growth (%)	-36.1	-173.7	-315.7	6.0
Depreciation	3969.1	4443.1	5543.3	5543.3
EBIT	6206.7	-11943.9	10638.4	11604.5
Interest	972.7	2022.5	1948.2	1948.2
Other Income	2969.7	1198.1	2400.0	2400.0
PBT	8203.7	-12768.3	11090.2	12056.3
Growth (%)	-42.4	-255.6	-186.9	8.7
Tax	1821.1	-3299.1	2794.7	3038.2
Reported PAT	6382.6	-9469.3	8295.4	9018.1
Growth (%)	-40.1	-248.4	-187.6	8.7
EPS	44.9	-66.7	58.5	63.6

Source: Company, ICICI Direct Research

Exhibit 10: Cash flow statement				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
Profit after Tax	6,382.6	-9,469.3	8,295.4	9,018.1
Add: Depreciation	3,969.1	4,443.1	5,543.3	5,543.3
Add: Others	467.2	600.0	300.0	300.0
Cash Profit	7,591.7	-4,426.1	11,406.2	12,128.9
Increase/(Decrease) in CL	12,288.4	8,844.6	-4,996.4	3,845.8
(Increase)/Decrease in CA	-3,083.7	-8,566.4	9,380.0	529.5
CF from Operating Activi	13569.2	-4147.9	13057.3	13771.6
Purchase of Fixed Assets	13,734.4	11,913.9	13,100.0	12,234.0
(Inc)/Dec in Investments	-2,951.0	-250.0	-250.0	-250.0
Others	0.0	0.0	0.0	0.0
CF from Investing Activi	-16685.4	-12163.9	-13350.0	-12484.0
Inc/(Dec) in Loan Funds	3,674.4	17,000.0	2,700.0	2,700.0
Less: Dividend Paid	3,227.2	0.0	2,732.5	2,732.5
Inc/(Dec) in Sh. Cap. & Res.	-664.4	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0
CF from financing activi	-217.2	17,000.0	-32.5	-32.5
Change in cash Eq.	-106.3	688.2	2,407.3	3,987.6
Op. Cash and cash Eq.	237.2	131.0	819.1	3,226.4
Cl. Cash and cash Eq.	131.0	819.1	3,226.4	7,214.0

Source: Company, ICICI Direct Research

Exhibit 11: Balance Sheet				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
Source of Funds				
Equity Capital	1,418.9	1,418.9	1,418.9	1,418.9
Preference capital	0.0	0.0	0.0	0.0
Reserves & Surplus	37,258.2	27,789.0	33,351.9	39,637.4
Shareholder's Fund	38,677.2	29,207.9	34,770.8	41,056.4
Loan Funds	46,590.3	63,590.3	66,290.3	68,990.3
Deferred Tax Liability	5,978.3	6,578.3	6,878.3	7,178.3
Minority Interest	0.0	0.0	0.0	0.0
Source of Funds	91245.7	99376.4	107939.3	117224.9
Application of Funds				
Gross Block	78,046.6	95,396.6	1,10,996.6	1,26,596.6
Less: Acc. Depreciation	20,704.7	25,333.9	30,877.2	37,286.5
Net Block	57,342.0	70,062.8	80,119.4	89,310.1
Capital WIP	26,557.4	21,307.4	18,807.4	16,307.4
Total Fixed Assets	83,899.4	91,370.2	98,926.9	1,05,617.5
Investments	17,943.7	18,193.7	18,443.7	18,693.7
Inventories	35,345.6	43,445.9	38,161.9	40,587.0
Debtor	6,331.8	7,447.9	6,734.4	7,162.4
Cash	131.0	819.1	3,226.4	7,214.0
Loan & Advance, Other CA	6508.7	5858.7	5208.7	4558.7
Total Current assets	48317.1	57571.6	53331.5	59522.2
Current Liabilities	55766.6	64548.2	59487.6	63267.9
Provisions	3147.9	3210.9	3275.1	3340.6
Total CL and Provisions	58914.5	67759.1	62762.7	66608.5
Net Working Capital	-10597.4	-10187.5	-9431.2	-7086.4
Miscellaneous expense	0.0	0.0	0.0	0.0
Application of Funds	91245.7	99376.4	107939.3	117224.9

Source: Company, ICICI Direct Research

Exhibit 12: Key ratios				
(Year-end March)	FY22	FY23E	FY24E	FY25E
Per share data (₹)				
Book Value	272.0	205.8	245.0	289.3
Cash per share	0.9	5.8	22.7	50.8
EPS	44.9	-66.7	58.5	63.6
Cash EPS	72.8	-35.4	97.5	102.6
DPS	14.0	0.0	16.0	16.0
Profitability & Operating Ratios				
EBITDA Margin (%)	2.7	-1.7	3.9	3.9
PAT Margin (%)	1.7	-2.1	2.0	2.1
Fixed Asset Turnover (x)	4.5	5.0	4.1	4.1
Inventory Turnover (Days)	34.5	35.0	34.0	34.0
Debtor (Days)	6.2	6.0	6.0	6.0
Current Liabilities (Days)	54.4	52.0	53.0	53.0
Return Ratios (%)				
RoE	16.5	-32.4	23.9	22.0
RoCE	7.3	-12.9	10.5	10.5
RoIC	7.8	-13.7	11.4	11.8
Valuation Ratios (x)				
PE	5.2	-3.5	4.0	3.7
Price to Book Value	0.9	1.1	0.9	0.8
EV/EBITDA	7.8	-12.8	5.9	5.5
EV/Sales	0.2	0.2	0.2	0.2
Leverage & Solvency Ratios				
Debt to equity (x)	1.2	2.2	1.9	1.7
Interest Coverage (x)	6.4	-5.9	5.5	6.0
Debt to EBITDA (x)	4.6	-8.5	4.1	4.0
Current Ratio	0.8	0.8	0.8	0.9
Quick ratio	0.2	0.2	0.2	0.3

Source: Company, ICICI Direct Research

Exhibit 13: ICICI Direct coverage universe (Oil & Gas)

Sector / Company	CMP (₹)	TP (₹)	Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
					FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
BPCL (BHAPET)	343	380	Hold	73,040	91.0	43.7	5.2	3.8	7.9	65.8	5.8	6.3	13.0	14.8	13.9	2.7	34.9	18.5	2.2
GAIL (India) (GAIL)	96	115	Buy	63,121	11.0	23.3	9.4	8.7	4.1	10.2	7.3	3.4	8.4	8.7	18.8	9.0	10.5	18.6	10.5
Gujarat Gas (GUJGA)	515	550	Hold	35,453	18.9	18.9	26.6	27.2	27.3	19.4	17.3	16.9	12.1	27.3	22.0	26.4	23.3	19.6	22.5
HPCL (HINPET)	232	275	Buy	32,919	70.6	44.9	-66.7	3.3	5.2	-3.5	4.8	7.8	-12.8	15.6	7.3	-12.9	29.5	16.5	-32.4
Indian Oil Corp (INDOIL)	81	90	Hold	1,14,382	15.5	17.1	5.2	5.2	4.7	15.5	3.0	2.6	5.0	13.3	12.9	4.0	19.8	18.4	5.8
Indraprastha Gas (INDGAS)	418	490	Buy	29,260	14.4	18.8	20.1	29.1	22.3	20.8	19.0	14.9	13.7	20.0	22.3	20.8	17.1	19.0	17.7
Mahanagar Gas (MAHGAS)	855	1,000	Buy	8,446	62.7	60.4	71.1	13.6	14.1	12.0	8.6	8.7	7.4	23.1	19.8	20.8	19.2	16.6	17.6
ONGC (ONGC)	149	155	Hold	1,91,217	10.4	8.9	32.0	14.3	16.7	4.7	4.2	6.4	3.3	10.2	4.5	14.8	6.7	5.5	17.0
Petronet LNG (PETLNG)	225	230	Hold	33,750	19.7	22.3	22.0	11.4	10.1	10.2	7.0	6.2	6.2	26.0	27.0	23.7	25.3	25.0	22.6
Reliance Industries (RELIND)	2,443	3,050	Buy	16,52,690	89.7	89.7	100.6	32.0	27.2	24.3	22.9	17.9	13.1	5.5	7.1	9.2	7.0	7.8	8.1

Source: Bloomberg, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruiti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

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