

GRMs continue to remain volatile...

Hindustan Petroleum Corporation's (HPCL) Q4FY20 results were above our estimates on the operational front. Revenues fell 4.1% QoQ to ₹ 71554.6 crore due to lower product sales. Both marketing & refining segment reported inventory losses. On the refining front, reported GRMs were at -US\$1.2/bbl, impacted by inventory loss of US\$10.6/bbl while core GRMs were at US\$9.4/bbl. EBITDA loss was at ₹ 706.6 crore vs. estimated loss of ₹ 151.8 crore, impacted by forex loss of ₹ 975 crore. HPCL reported exceptional loss of ₹ 1002.9 crore owing to write down of inventories due to fall in oil prices. PAT was at ₹ 26.8 crore, down 96.4% QoQ (estimated loss: ₹ 628.4 crore) due to tax write-back as HPCL shifted to a lower tax rate.

Steady marketing margins

A sharp reduction in oil demand owing to Covid-19 outbreak resulted in a significant drop in crude oil prices. As a result, average Brent crude oil prices declined by US\$12/bbl QoQ to US\$50.6/bbl with closing Brent price at US\$21.5/bbl. On account of the same, the company reported marketing inventory loss of ₹ 1529 crore. However, core marketing margins were relatively steady during the quarter. Marketing sales de-grew 7.8% YoY to 9.3 MMT mainly due to a decline in diesel sales. Going forward, we expect marketing sales volumes at 37.4 MMT & 42.2 MMT in FY21E and FY22E, respectively. Crude throughput in Q4FY20 was down 1.3% YoY at 4.5 MMT. Going ahead, we estimate crude throughput of 17.8 MMT, 21.9 MMT for FY21E, FY22E, respectively, on account of increase in refining capacity.

Core GRMs strong

Reported GRMs during the quarter came in at -US\$1.2/bbl, better than our estimate of -US\$1.5/bbl. Core GRMs were strong at US\$9.4/bbl while inventory loss was at US\$10.6/bbl. Benchmark Singapore GRMs are currently very low with marginal recovery witnessed recently. Improvement in petrol & diesel spreads will be important for stable GRMs. We estimate GRMs at US\$3.4/bbl and US\$3.5/bbl for FY21E and FY22E, respectively.

Valuations & Outlook

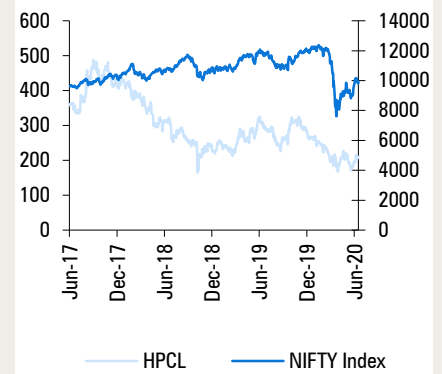
Marketing sales were affected due to the extended lockdown in April & May but have improved sharply in June. Petrol & diesel demand is currently at 82-88% of normal level. The management indicated it could reach up to 90% by June end. Post excise duty hike, HPCL has hiked retail prices by ~₹ 6/litre in June, which will result in steady marketing margins, going forward. However, we remain neutral on HPCL at the current juncture given the volatility in refining margins. We maintain **HOLD** recommendation on the stock with a target price of ₹ 215 (based on average of P/BV multiple: ₹ 232/share and P/E multiple: ₹ 197/share).

Particulars	
Particular	Amount
Market Capitalization (₹ Cr)	33,867.1
Total Debt (FY 19) (₹ Crore)	27,239.7
Cash and Investments (FY)	95.6
EV (₹ Crore)	61,011.2
52 week H/L	329/155
Equity capital (₹ Crore)	1,524.2
Face value (₹)	10.0

Key Highlights

- Results better than estimates on operational front
- Marketing margins to remain steady due to retail price hike
- Maintain HOLD on stock with target price of ₹ 215/share

Price Chart



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Key Financial Summary

(Year-end March)	FY18	FY19	FY20E	FY21E	FY22E	CAGR (FY19-22E)
Revenues (₹ crore)	2,44,027.9	2,96,928.4	2,87,407.3	2,10,132.4	3,33,195.8	3.9
EBITDA (₹ crore)	10,614.7	11,442.0	5,123.2	8,121.4	9,326.8	(6.6)
Net Profit (₹ crore)	6,357.1	6,028.7	2,637.3	3,698.4	3,956.8	(13.1)
EPS (₹)	41.7	39.5	17.3	24.2	25.9	
P/E (x)	5.3	5.6	12.8	9.2	8.6	
Price / Book (x)	1.4	1.2	1.2	1.1	1.1	
EV/EBITDA (x)	5.1	5.3	13.5	9.1	7.5	
RoCE (%)	17.5	15.2	2.8	6.2	7.0	
RoE (%)	26.5	21.4	9.1	12.1	12.5	

Exhibit 1: Variance Analysis

	Q4FY20	Q4FY20E	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	Comments
Total Revenues	71,554.6	56,370.0	73,150.0	-2.2	74,589.4	-4.1	Higher than estimated revenues on account of better than expected sales
Raw materials costs	61,629.7	47,471.8	58,621.4	5.1	64,608.5	-4.6	
Employees Cost	838.2	750.0	731.0	14.7	768.1	9.1	
Other Expenses	9,793.2	8,300.0	8,631.4	13.5	7,345.9	33.3	
Total Expenditure	72,261.1	56,521.8	67,983.8	6.3	72,722.5	-0.6	
EBITDA	-706.6	-151.8	5,166.2	-113.7	1,866.9	-137.8	Lower-than-expected due to high inventory and forex loss
EBITDA margins (%)	-1.0	-0.3	7.1	-805 bps	2.5	-349 bps	
Depreciation	811.4	830.9	828.5	-2.1	865.9	-6.3	
EBIT	-1,518.0	-982.7	4,337.8	-135.0	1,001.1	-251.6	
Interest	337.4	257.4	187.2	80.3	252.4	33.7	
Other Income	424.1	400.0	522.5	-18.8	402.2	5.4	
Extra Ordinary Item	-1,002.9	0.0	0.0	NA	0.0	NA	
PBT	-2,434.3	-840.2	4,673.1	-152.1	1,150.8	-311.5	
Total Tax	-2,461.1	-211.7	1,703.2	-244.5	403.6	-709.7	Write-back of deferred tax liability on implementation of new corporate tax regime
PAT	26.8	-628.4	2,969.9	-99.1	747.2	-96.4	
Key Metrics							
Exchange rate (₹\$)	72.5	72.5	70.5	2.9	71.2	1.8	
Throughput (mmt)	4.5	4.1	4.6	-1.3	4.2	9.1	Above estimates
Sales (mmt)	9.3	8.5	10.0	-7.8	9.8	-5.2	Higher than expectation due to lower than anticipated impact of lockdown
GRM (\$/barrel)	-1.2	-1.5	4.5	-127.3	1.8	-168.7	Reported GRMs higher than estimates. Core GRMs at US\$9.4/bbl

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹Crore)	FY21E			FY22E			Comments
	Old	New	Change	Old	New	Change	
Revenue	184787.7	210132.4	13.7	287935.1	333195.8	15.7	
EBITDA	7917.1	8,121.4	2.6	9159.8	9,326.8	1.8	Increased FY 21E estimates due to inventory gain in Q1FY 21 and marginal increase in marketing segment
EBITDA Margin (%)	4.3	3.9	-42 bps	3.2	2.8	-38 bps	
PAT	3615.7	3,698.4	2.3	4002.3	3,956.8	-1.1	Lowered FY 22E estimates due to high interest cost
EPS (₹)	23.7	24.2	2.3	26.2	25.9	-1.1	

Source: Company, ICICI Direct Research

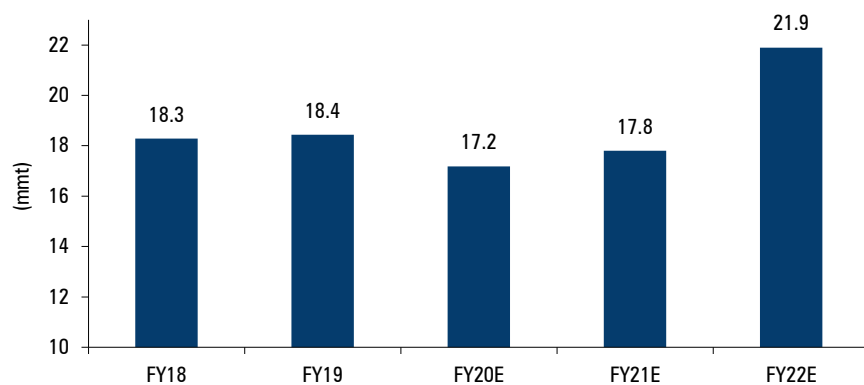
Exhibit 3: Assumptions

	Current				Earlier		Comments
	FY19E	FY20E	FY21E	FY22E	FY21E	FY22E	
Exchange rate (₹\$)	69.9	70.9	75.0	75.0	74.0	74.0	
Throughput (mmt)	18.4	17.2	17.8	21.9	17.7	21.9	
Sales (mmt)	37.9	37.8	37.4	42.2	37.7	42.2	Lowered FY 21E estimates due to extended lockdown in Q1FY 21E
GRM (\$/barrel)	5.0	1.0	3.4	3.5	3.3	3.5	

Source: Company, ICICI Direct Research

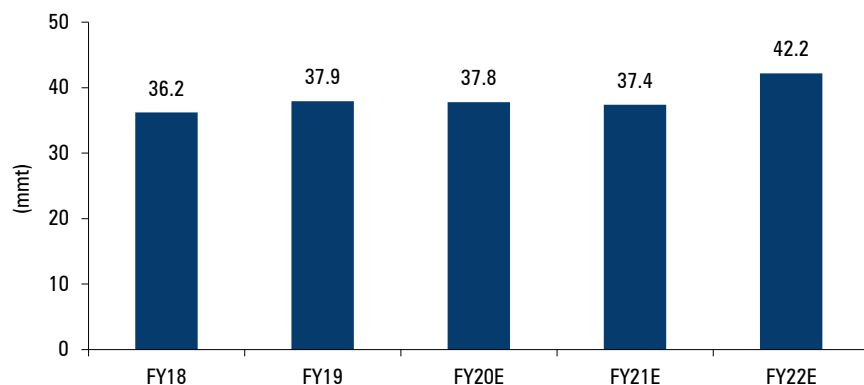
Story in charts

Exhibit 4: Oil throughput trend



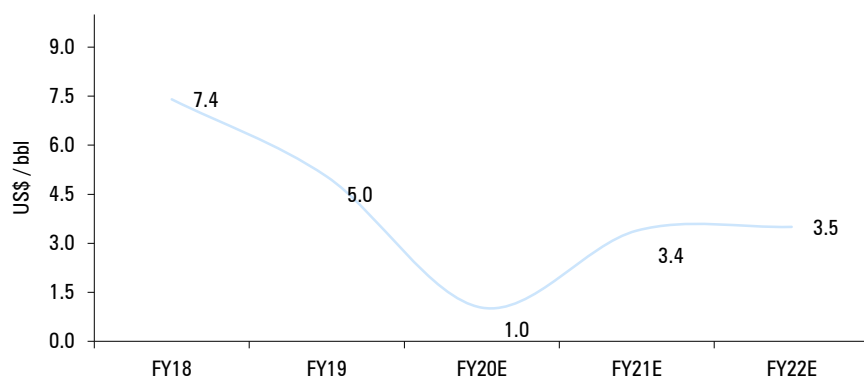
Source: Company, ICICI Direct Research

Exhibit 5: Marketing sales volume trend



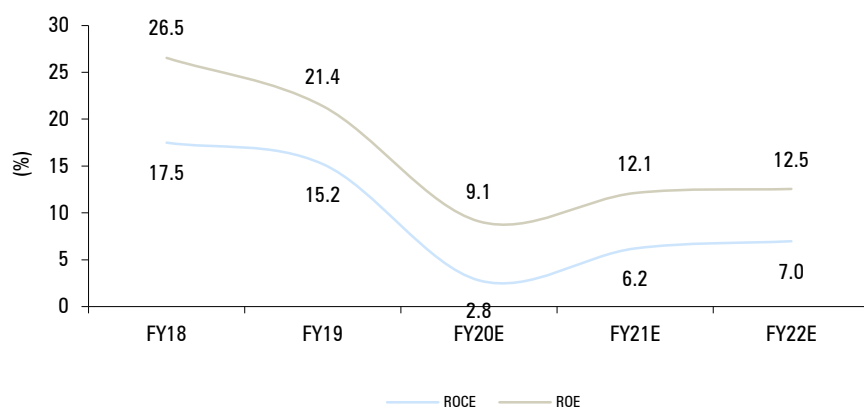
Source: Company, ICICI Direct Research

Exhibit 6: Refining margins trend



Source: Company, ICICI Direct Research

Exhibit 7: Return ratios trend



Source: Company, ICICI Direct Research

Exhibit 8: Shareholding Pattern

(in %)	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Promoter	51.1	51.1	51.1	51.1	51.1
FII	18.6	19.6	18.3	19.2	17.7
DII	18.1	17.2	21.5	20.8	21.7
Others	12.2	12.0	9.1	8.9	9.5

Source: Company, ICICI Direct Research

Financial summary

Exhibit 9: Profit and loss statement					₹ crore
(Year-end March)	FY19	FY20E	FY21E	FY22E	
Revenue	296928.4	287407.3	210132.4	333195.8	
Growth (%)	21.7	-3.2	-26.9	58.6	
(Inc.)/(Dec.) in stock in tra	-2166.5	-418.5	0.0	0.0	
Raw material Costs	69609.8	59734.5	38602.9	62888.9	
Purchase of Products	180474.0	187205.1	126949.6	224203.8	
Employee Costs	2938.5	3194.7	3258.5	3356.3	
Other Expenditure	34630.6	32568.3	33200.0	33420.0	
Op. Expenditure	285486.4	282284.1	202011.0	323869.0	
EBITDA	11442.0	5123.2	8121.4	9326.8	
Growth (%)	7.8	-55.2	58.5	14.8	
Depreciation	3012.6	3304.4	3691.6	4454.8	
EBIT	8429.4	1818.8	4429.8	4872.0	
Interest	725.9	1081.7	1185.4	1382.1	
Other Income	1635.2	835.5	1700.0	1800.0	
PBT	9338.7	1572.6	4944.3	5289.9	
Growth (%)	1.5	-83.2	214.4	7.0	
Tax	3310.0	-1064.7	1246.0	1333.0	
Reported PAT	6028.7	2637.3	3698.4	3956.8	
Growth (%)	-5.2	-56.3	40.2	7.0	
EPS	39.5	17.3	24.2	25.9	

Source: Company, ICICI Direct Research

Exhibit 10: Cash flow statement					₹ crore
(Year-end March)	FY19	FY20E	FY21E	FY22E	
Profit after Tax	6,028.7	2,637.3	3,698.4	3,956.8	
Add: Depreciation	3,012.6	3,304.4	3,691.6	4,454.8	
Add: Others	595.6	-2,673.2	600.0	600.0	
Cash Profit	7,983.5	1,478.2	5,786.6	6,073.8	
Increase/(Decrease) in CI	5,872.6	-2,152.8	-8,739.6	17,013.8	
(Increase)/Decrease in C/	-7,157.2	7,345.5	11,594.7	-7,026.8	
CF from Operating Acti	5045.6	4880.6	6438.4	13122.9	
Purchase of Fixed Assets	11,530.7	12,478.5	10,850.0	8,850.0	
(Inc)/Dec in Investments	-713.5	-693.0	-250.0	-250.0	
Others	0.0	0.0	0.0	0.0	
CF from Investing Acti	-12244.2	-13171.4	-11100.0	-9100.0	
Inc/(Dec) in Loan Funds	6,248.8	8,500.0	5,000.0	-2,500.0	
Less: Dividend Paid	1,653.3	1,790.2	2,203.4	2,937.8	
Inc/(Dec) in Sh. Cap. & Re	-148.9	0.0	0.0	0.0	
Others	0.0	0.0	0.0	0.0	
CF from financing activ	4,446.6	6,709.8	2,796.6	-5,437.8	
Change in cash Eq.	-1,098.7	209.2	338.4	1,522.9	
Op. Cash and cash Eq.	1,194.3	95.6	304.8	643.2	
Cl. Cash and cash Eq.	95.6	304.8	643.2	2,166.1	

Source: Company, ICICI Direct Research

Exhibit 11: Balance sheet					₹ crore
(Year-end March)	FY19	FY20E	FY21E	FY22E	
Source of Funds					
Equity Capital	1,524.2	1,524.2	1,524.2	1,524.2	
Preference capital	0.0	0.0	0.0	0.0	
Reserves & Surplus	26,650.6	27,497.6	28,992.6	30,011.6	
Shareholder's Fund	28,174.8	29,021.8	30,516.8	31,535.8	
Loan Funds	27,239.7	35,739.7	40,739.7	38,239.7	
Deferred Tax Liability	7,164.8	4,491.5	5,091.5	5,691.5	
Minority Interest	0.0	0.0	0.0	0.0	
Source of Funds	62579.3	69253.1	76348.1	75467.1	
Application of Funds					
Gross Block	51,589.0	56,439.0	63,289.0	80,889.0	
Less: Acc. Depreciation	10,609.7	13,933.4	17,625.1	22,079.9	
Net Block	40,979.3	42,505.6	45,663.9	58,809.1	
Capital WIP	9,495.9	17,143.7	21,143.7	12,393.7	
Total Fixed Assets	50,475.2	59,649.3	66,807.6	71,202.8	
Investments	11,818.6	12,511.6	12,761.6	13,011.6	
Inventories	20,193.4	19,141.2	14,392.6	22,821.6	
Debtor	5,652.6	3,922.7	4,029.9	6,390.1	
Cash	95.6	304.8	643.2	2,166.1	
Loan & Advance, Other C	15515.4	12742.3	7992.3	7167.8	
Total Current assets	41457.0	36111.0	27058.0	38545.6	
Current Liabilities	38113.1	38583.4	28209.6	44730.4	
Provisions	3058.5	435.3	2069.6	2562.5	
Total CL and Provisions	41171.6	39018.8	30279.2	47292.9	
Net Working Capital	285.4	-2907.8	-3221.2	-8747.4	
Miscellaneous expense	0.0	0.0	0.0	0.0	
Application of Funds	62579.3	69253.1	76348.1	75467.1	

Source: Company, ICICI Direct Research

Exhibit 12: Key ratios					₹ crore
(Year-end March)	FY19	FY20E	FY21E	FY22E	
Per share data (₹)					
Book Value	184.7	190.2	200.0	206.7	
Cash per share	0.6	2.0	4.2	14.2	
EPS	39.5	17.3	24.2	25.9	
Cash EPS	59.3	38.9	48.4	55.1	
DPS	9.0	9.8	12.0	16.0	
Profitability & Operating Ratios					
EBITDA Margin (%)	3.9	1.8	3.9	2.8	
PAT Margin (%)	2.0	0.9	1.8	1.2	
Fixed Asset Turnover (x)	5.9	4.8	3.1	4.7	
Inventory Turnover (Days)	24.8	25.0	25.0	25.0	
Debtor (Days)	6.9	7.0	7.0	7.0	
Current Liabilities (Days)	46.9	49.0	49.0	49.0	
Return Ratios (%)					
RoE	21.4	9.1	12.1	12.5	
RoCE	15.2	2.8	6.2	7.0	
RoIC	16.7	3.1	6.8	7.8	
Valuation Ratios (x)					
PE	5.6	12.8	9.2	8.6	
Price to Book Value	1.2	1.2	1.1	1.1	
EV/EBITDA	5.3	13.5	9.1	7.5	
EV/Sales	0.2	0.2	0.4	0.2	
Leverage & Solvency Ratios					
Debt to equity (x)	1.0	1.2	1.3	1.2	
Interest Coverage (x)	11.6	1.7	3.7	3.5	
Debt to EBITDA (x)	2.4	7.0	5.0	4.1	
Current Ratio	1.0	0.9	0.9	0.8	
Quick ratio	0.5	0.4	0.4	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 (%)		
					FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
BPCL (BHAPET)	357	350	HOLD	67,267	28.4	29.9	0.0	12.6	11.9	0.0	10.4	9.2	0.0	8.2	8.7	0.0	14.7	14.8	0.0
GAIL (India) (GAIL)	85	80	Hold	38,336	11.0	9.1	9.1	7.8	9.4	9.8	5.4	7.5	7.7	12.3	7.8	7.5	10.9	8.7	8.5
Gujarat Gas (GUJGA)	289	290	Hold	19,895	17.3	9.2	16.0	16.7	31.6	18.0	12.7	16.5	10.7	26.7	18.5	28.8	36.4	16.5	23.1
HPCL (HINPET)	222	215	Hold	33,867	17.3	24.2	25.9	12.8	9.2	8.6	13.5	9.1	7.5	2.8	6.2	7.0	9.1	12.1	12.5
Indian Oil Corp (INDOIL)	82	85	Hold	75,285	4.5	10.8	11.6	18.3	7.6	7.0	4.2	3.0	2.6	4.9	8.2	8.6	3.9	9.0	9.7
Indraprastha Gas (INDGAS)	435	425	Buy	30,450	16.1	16.5	18.7	26.9	26.4	25.8	20.1	18.0	17.3	24.6	22.8	22.3	22.4	19.5	19.1
Mahanagar Gas (MAHGAS)	1075	1145	Hold	10,619	80.3	58.3	88.0	13.4	18.4	12.2	9.5	11.8	7.6	32.0	22.1	29.0	28.5	18.7	23.8
ONGC (ONGC)	76	65	Reduce	97,533	16.2	3.0	11.3	4.7	25.3	6.7	2.3	5.3	3.4	10.8	0.3	5.8	9.4	1.7	6.4
Petronet LNG (PETLNG)	232	245	Buy	34,800	19.4	16.7	19.7	11.9	13.9	11.8	8.2	8.1	7.0	24.2	24.1	29.0	27.7	23.7	26.9

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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