

CMP: ₹ 259

Target: ₹ 310 (20%)

Target Period: 12 months

May 16, 2023

BUY

Record marketing margins in Q1 keeping spirits up...

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

- The company operates more than 21000 retail outlets
- Petrol & diesel together historically contributed more than 60% of total sales

Q4FY23 Results: HPCL's results were better than I-direct estimates on the profitability front.

- Revenue was up 8.7% YoY (down 1.4% QoQ) to ₹ 114444.7 crore vs. I-direct estimate of ₹ 109658 crore. Product sales grew 6.4% YoY, flattish QoQ to 10.9 MMT
- Reported GRMs was at US\$14/bbl while throughput was up 5.8% YoY, 2.7% QoQ to 4.96 MMT. As per our understanding, marketing margins were lower than estimates. EBITDA was at ₹ 4798.6 crore above I-direct estimate of ₹ 4522 crore
- Hence, PAT for the quarter was at ₹ 3222.6 crore above I-direct estimate of ₹ 2353 crore

What should investors do? In the current quarter, GRMs are expected to be subdued but likely to be countered by strong marketing margins. However, we expect GRMs to improve in H2FY24 with anticipated increase in demand. HPCL's refining capacity is expected to increase with expansion plans at its wholly owned Visakh refinery (from 8.3 MMTPA to 15 MMTPA) and a refinery cum petrochemical complex (9 MMTPA with a 74% stake) in Rajasthan.

- We maintain our **BUY** rating on the stock

Target Price and Valuation: We value HPCL at ₹ 310 i.e. average of P/BV multiple: ₹ 320/share (~1x P/BV on FY25E book value), 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 ₹ 2850



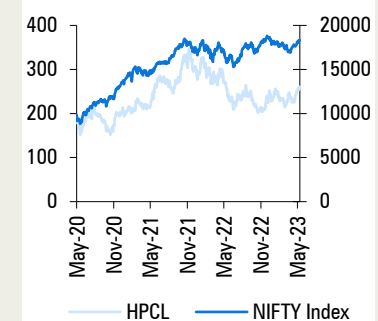
Particulars

Particular	Amount
Market Capitalization (₹ Crore)	37,591.5
Total Debt (FY23) (₹ Crore)	68,005.1
Cash and Investments (FY23)	538.6
EV (₹ Crore)	1,05,058.1
52 week H/L	267/200
Equity capital (₹ Crore)	1,418.9
Face value (₹)	10.0

Shareholding pattern

(in %)	Jun-22	Sep-22	Dec-22	Mar-23
Promoter	54.9	54.9	54.9	54.9
FII	18.2	16.7	15.7	14.4
DII	16.4	18.0	19.6	21.4
Others	10.5	10.4	9.8	9.3

Price Chart



Recent event & key risks

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

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Key Financial Summary

(Year-end March)	FY21	FY22	FY23E	5 yr CAGR (FY18-23E)	FY24E	FY25E	2 yr CAGR (FY23-25E)
Revenues (₹ crore)	2,70,326.3	3,73,896.7	4,66,192.4	13.8	4,49,371.4	4,84,289.4	1.9
EBITDA (₹ crore)	15,925.4	10,175.9	(7,522.2)	NA	16,453.3	19,656.1	NA
Net Profit (₹ crore)	10,663.9	6,382.6	(8,974.0)	NA	8,348.4	9,277.6	NA
EPS (₹)	70.6	44.9	(63.3)		58.9	65.4	
P/E (x)	3.8	5.9	(4.2)		4.5	4.1	
Price / Book (x)	1.1	1.0	1.4		1.0	0.8	
EV/EBITDA (x)	5.1	8.3	(14.0)		6.9	6.5	
RoCE (%)	15.6	7.3	(12.4)		9.5	9.1	
RoE (%)	29.5	16.5	(32.4)		23.2	20.5	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter & conference call highlights

Q4FY23 Results: HPCL reports strong GRMs

- Reported GRMs at US\$14/bbl were higher than I-direct estimates of US\$10/bbl. However, marketing profitability was lower than our estimate, as per our understanding
- The company did not disclose refining inventory details. We estimate GRMs at US\$9.3/bbl and US\$9/bbl in FY24E and FY25E, respectively, taking into account recent product cracks trend
- On account of an increase in refining capacity, we estimate crude throughput of 22 MMT and 30.4 MMT for FY24E and FY25E, respectively
- We estimate marketing sales at 44 MMT and 46 MMT in FY24E and FY25E, respectively

Some of the updates on the ongoing projects are as follows:

- During the year, three new LPG plants with a combined capacity of 360 TMTPA were commissioned at Barhi (Jharkhand), Patalganga (Maharashtra) and Sitarganj (Uttarakhand)
- The 5 MMTPA LNG terminal being constructed through its subsidiary, HPCL LNG Ltd has achieved mechanical completion on March 28, 2023. The work on pipeline connectivity by GSPL and the port facilities by Simar Port Pvt Ltd are in advanced stages of completion
- HPCL along with its JVs have authorisation for setting up of CGD network in 23 geographical areas (GAs) comprising 48 districts across 12 states with planned investment of over ₹10000 crore during the next few years
- With the commissioning of 1161 new retail outlets, HPCL has crossed the milestone of 21000 retail outlets during the year
- During the year, HPCL forayed into marketing of petrochemical products with the launch of 'HP DURAPOL' brand and has commenced sales of Poly Propylene and Polyethylene in the key markets of Maharashtra and Gujarat
- HPCL is constructing a second generation ethanol bio refinery at Bathinda, Punjab with a production capacity of 100 kilolitre per day of ethanol from biomass
- With 1026 new EV charging stations commissioned during the year, HPCL now has a total of 2037 outlets with EV charging facilities
- Total 63 new Lols equivalent to 117 TMTPA CBG production capacities have been issued during the year under the SATAT scheme taking the tie-ups for CBG production capacity equivalent to 943 TMTPA. HPCL now has four functional CBG plants under the SATAT scheme

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)	265	310	Buy	37,592	70.6	44.9	-63.3	3.8	5.9	-4.2	5.1	8.3	-14.0	15.6	7.3	-12.4	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

	Q4FY23	Q4FY23E	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	Comments
Total Revenues	1,14,444.7	1,09,657.7	1,05,288.5	8.7	1,16,126.6	-1.4	Flat QoQ
Raw materials costs	97,993.9	93,437.4	90,141.3	8.7	1,03,125.8	-5.0	
Employees Cost	801.0	793.5	741.6	8.0	716.3	11.8	
Other Expenses	10,851.2	10,905.0	12,307.0	-11.8	10,612.9	2.2	
Total Expenditure	1,09,646.1	1,05,135.9	1,03,189.9	6.3	1,14,455.0	-4.2	
EBITDA	4,798.6	4,521.7	2,098.6	128.7	1,671.6	187.1	GRMs were higher than expected, however marketing margins were below estimates as per our understanding
EBITDA margins (%)	4.2	4.1	2.0	220 bps	1.4	275 bps	
Depreciation	1,044.2	1,140.5	1,083.2	-3.6	1,110.5	-6.0	
EBIT	3,754.4	3,381.2	1,015.4	269.7	561.2	569.0	
Interest	522.6	688.6	328.3	59.2	681.7	-23.3	
Other Income	1,160.0	360.1	1,597.9	-27.4	288.9	301.5	Higher than expected
Extra Ordinary Item	0.0	0.0	0.0	NA	0.0	NA	
PBT	4,391.8	3,052.7	2,285.0	92.2	168.4	2,507.4	
Total Tax	1,169.2	699.7	489.7	138.8	-4.0	-29,403.8	
PAT	3,222.6	2,353.0	1,795.3	79.5	172.4	1,768.9	

Key Metrics

Exchange rate (₹/\$)	82.3	82.3	75.2	9.4	82.2	0.1	
Throughput (mmt)	4.96	4.82	4.7	5.8	4.8	2.7	
Sales (mmt)	10.9	11.1	10.3	6.4	11.0	-0.3	In line with estimates
GRM (\$/barrel)	14.0	10.0	12.4	12.6	9.1	53.3	Higher than estimates

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

₹ Crore	FY23			FY24E			FY25E			Comments
	Old	New	Change	Old	New	Change	Old	New	Change	
Revenue	461405.3	466192.4	1.0	421451.5	449371.4	6.6	448594.5	484289.4	8.0	
EBITDA	-7799.1	-7,522.2	-3.5	16239.0	16,453.3	1.3	17207.7	19,656.1	14.2	We revise GRM and marketing profitability estimates post Q4FY23 results
EBITDA Margin (%)	-1.7	-1.6	8bps	3.9	3.7	-19bps	3.8	4.1	22bps	
PAT	-9843.6	-8,974.0	-8.8	7350.8	8,348.4	13.6	9128.7	9,277.6	1.6	
EPS (₹)	-69.4	-63.3	-8.8	51.8	58.9	13.6	64.3	65.4	1.7	

Source: ICICI Direct Research

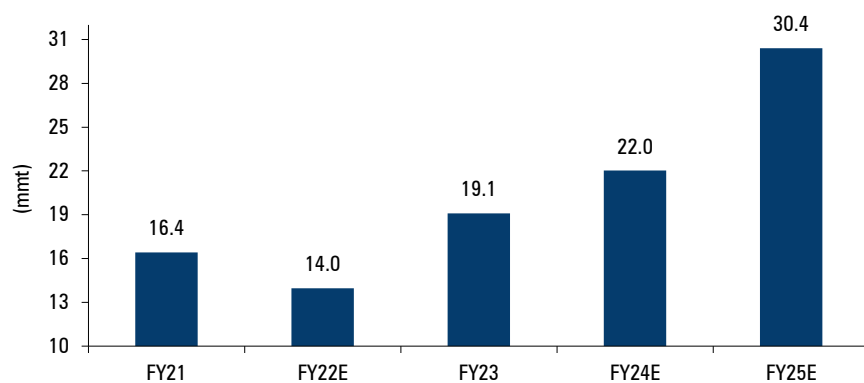
Exhibit 4: Assumptions

	Current					Earlier			Comments
	FY21	FY22	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	
Exchange rate (₹/\$)	74.0	74.6	80.3	82.2	82.2	80.3	82.2	82.2	
Throughput (mmt)	16.4	14.0	19.1	22.0	30.4	19.0	22.3	29.4	
Sales (mmt)	35.2	37.5	42.2	44.1	46.1	42.4	44.3	46.2	
GRM (\$/barrel)	3.9	7.2	12.1	9.3	9.1	11.1	10.0	8.0	We revise GRM estimates taking into account current product cracks trend

Source: ICICI Direct Research

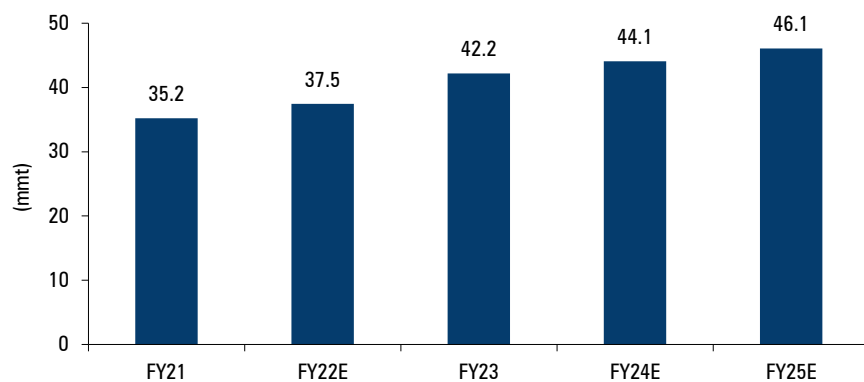
Story in charts

Exhibit 5: Oil throughput trend



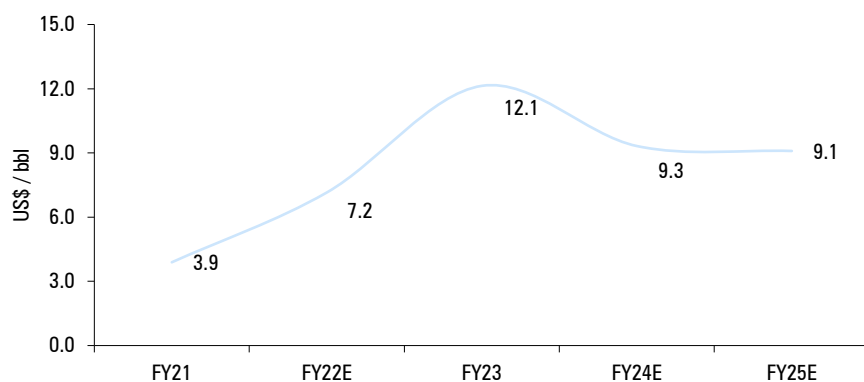
Source: Company, ICICI Direct Research

Exhibit 6: Marketing sales trend



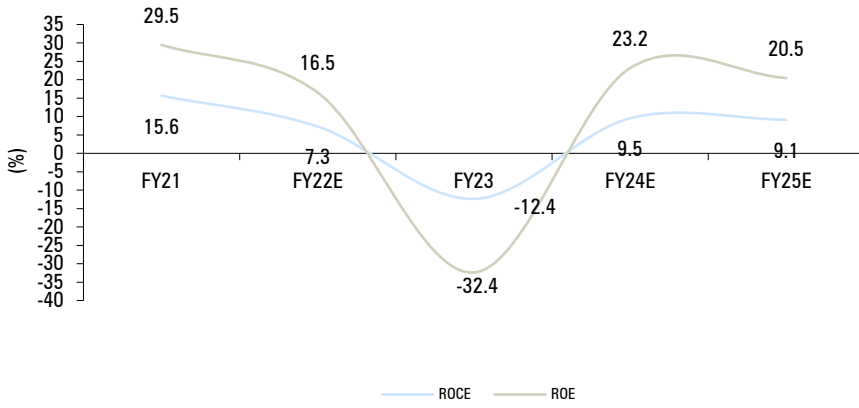
Source: Company, ICICI Direct Research

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	FY23	FY24E	FY25E
Revenue	373896.7	466192.4	449371.4	484289.4
Growth (%)	38.3	24.7	-3.6	7.8
(Inc.)/(Dec.) in stock in trade	-629.6	1491.9	0.0	0.0
Raw material Costs	69435.9	123932.6	103340.8	135445.5
Purchase of Products	253209.4	301594.3	281246.3	279021.3
Employee Costs	2982.5	2962.8	3111.0	3266.5
Other Expenditure	38722.8	43733.0	45220.0	46900.0
Op. Expenditure	363720.9	473714.6	432918.1	464633.3
EBITDA	10175.9	-7522.2	16453.3	19656.1
Growth (%)	-36.1	-173.9	-318.7	19.5
Depreciation	3969.1	4330.0	5398.4	7148.4
EBIT	6206.7	-11852.2	11054.9	12507.7
Interest	972.7	2131.9	2590.2	3010.2
Other Income	2969.7	2069.1	2696.2	2905.7
PBT	8203.7	-11914.9	11161.0	12403.3
Growth (%)	-42.4	-245.2	-193.7	11.1
Tax	1821.1	-2940.9	2812.6	3125.6
Reported PAT	6382.6	-8974.0	8348.4	9277.6
Growth (%)	-40.1	-240.6	-193.0	11.1
EPS	44.9	-63.3	58.9	65.4

Source: Company, ICICI Direct Research

Exhibit 10: Cash flow statement				
	₹ crore			
(Year-end March)	FY22	FY23	FY24E	FY25E
Profit after Tax	6,382.6	-8,974.0	8,348.4	9,277.6
Add: Depreciation	3,969.1	4,330.0	5,398.4	7,148.4
Add: Others	467.2	-2,967.3	300.0	300.0
Cash Profit	7,591.7	-7,611.3	11,485.7	14,165.0
Increase/(Decrease) in CL	12,288.4	-3,159.0	-1,248.6	4,073.9
(Increase)/Decrease in CA	-3,083.7	5,791.8	206.4	-754.6
CF from Operating Activi	13569.2	-4978.5	7882.4	14923.3
Purchase of Fixed Assets	13,734.7	10,771.8	17,398.5	28,281.4
(Inc)/Dec in Investments	-2,951.0	-3,267.0	-2,000.0	-2,000.0
Others	0.0	0.0	0.0	0.0
CF from Investing Activi	-16685.6	-14038.8	-19398.5	-30281.4
Inc/(Dec) in Loan Funds	3,674.4	21,414.8	12,000.0	12,000.0
Less: Dividend Paid	3,227.2	0.0	2,561.0	2,561.0
Inc/(Dec) in Sh. Cap. & Res.	-664.4	-1,989.7	2,561.0	2,561.0
Others	0.0	0.0	0.0	0.0
CF from financing activi	-217.2	19,425.2	12,000.0	12,000.0
Change in cash Eq.	-106.5	407.8	3,045.0	-797.1
Op. Cash and cash Eq.	237.2	130.7	538.6	3,583.6
Cl. Cash and cash Eq.	130.7	538.6	3,583.6	2,786.5

Source: Company, ICICI Direct Research

Exhibit 11: Balance Sheet				
	₹ crore			
(Year-end March)	FY22	FY23	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	26,294.5	34,642.9	43,920.6
Shareholder's Fund	38,677.2	27,713.4	36,061.9	45,339.5
Loan Funds	46,590.3	68,005.1	80,005.1	92,005.1
Deferred Tax Liability	5,978.3	3,011.0	3,311.0	3,611.0
Minority Interest	0.0	0.0	0.0	0.0
Source of Funds	91245.7	98729.5	119378.0	140955.6
Application of Funds				
Gross Block	77,441.1	91,967.5	1,07,967.5	1,42,967.5
Less: Acc. Depreciation	20,098.9	24,428.9	30,709.0	37,051.1
Net Block	57,342.2	67,538.6	77,258.5	1,05,916.4
Capital WIP	26,557.4	22,802.8	25,083.1	17,558.2
Total Fixed Assets	83,899.6	90,341.4	1,02,341.5	1,23,474.6
Investments	17,943.7	21,210.7	23,210.7	25,210.7
Inventories	35,345.6	29,344.0	30,778.9	33,170.5
Debtor	6,331.8	6,817.2	7,386.9	7,960.9
Cash	130.7	538.6	3,583.6	2,786.5
Loan & Advance, Other CA	6508.7	6233.2	6583.2	6933.2
Total Current assets	48316.9	42932.9	48332.6	50851.1
Current Liabilities	55766.6	53012.0	51708.5	55726.5
Provisions	3147.9	2743.5	2798.4	2854.3
Total CL and Provisions	58914.5	55755.5	54506.9	58580.8
Net Working Capital	-10597.6	-12822.6	-6174.3	-7729.7
Miscellaneous expense	0.0	0.0	0.0	0.0
Application of Funds	91245.7	98729.5	119378.0	140955.6

Source: Company, ICICI Direct Research

Exhibit 12: Key ratios				
(Year-end March)	FY22	FY23	FY24E	FY25E
Per share data (₹)				
Book Value	272.1	195.4	254.2	319.6
Cash per share	0.9	3.8	25.3	19.6
EPS	44.9	-63.3	58.9	65.4
Cash EPS	72.8	-32.7	96.9	115.8
DPS	14.0	0.0	15.0	15.0
Profitability & Operating Ratios				
EBITDA Margin (%)	2.7	-1.6	3.7	4.1
PAT Margin (%)	1.7	-1.9	1.9	1.9
Fixed Asset Turnover (x)	4.5	5.2	4.4	3.9
Inventory Turnover (Days)	34.5	23.0	25.0	25.0
Debtor (Days)	6.2	5.3	6.0	6.0
Current Liabilities (Days)	54.4	41.5	42.0	42.0
Return Ratios (%)				
RoE	16.5	-32.4	23.2	20.5
RoCE	7.3	-12.4	9.5	9.1
RoIC	7.8	-13.1	10.2	9.6
Valuation Ratios (x)				
PE	5.9	-4.2	4.5	4.1
Price to Book Value	1.0	1.4	1.0	0.8
EV/EBITDA	8.3	-14.0	6.9	6.5
EV/Sales	0.2	0.2	0.3	0.3
Leverage & Solvency Ratios				
Debt to equity (x)	1.2	2.5	2.2	2.0
Interest Coverage (x)	6.4	-5.6	4.3	4.2
Debt to EBITDA (x)	4.6	-9.0	4.9	4.7
Current Ratio	0.8	0.8	0.9	0.9
Quick ratio	0.2	0.2	0.3	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	120	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)	485	570	Buy	33,387	0.0	0.0	0.0	31.9	27.3	27.3	0.0	0.0	0.0	76.3	51.1	60.5	28.7	20.6	22.2
HPCL (HINPET)	265	310	Buy	37,592	70.6	44.9	-63.3	3.8	5.9	-4.2	5.1	8.3	-14.0	15.6	7.3	-12.4	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)	463	550	Buy	32,410	14.4	18.8	20.4	32.2	24.6	22.7	21.1	16.5	15.3	20.0	22.3	23.5	17.1	19.0	20.0
Mahanagar Gas (MAHGAS)	1077	1,300	Buy	10,638	327.2	364.2	418.5	44.8	35.6	34.3	17.2	17.8	13.5	0.0	0.0	0.0	172.4	123.8	81.5
ONGC (ONGC)	152	180	Buy	1,95,067	10.4	8.9	32.0	14.6	17.0	4.7	4.2	6.5	3.4	10.2	4.5	14.8	6.7	5.5	17.0
Petronet LNG (PETLNG)	227	240	Hold	34,050	19.7	22.3	21.6	11.5	10.2	10.5	7.0	6.3	6.5	26.0	27.0	22.7	25.3	25.0	21.7
Reliance Industries (RELIND)	2,349	2,850	Buy	15,89,099	89.7	89.7	98.6	30.8	26.2	23.8	22.2	17.0	12.8	5.5	7.3	9.0	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%



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