

30 July 2024

Hindustan Petroleum

Capacity added likely to boost growth; lowering to a Hold

Rating: **Hold**

Target Price (12-mth): Rs.474

Share Price: Rs.390

Domestic LPG loss marred Hindustan Petroleum's Q1, lower than ARe. We expect full compensation from government toward domestic LPG, a controlled product. We expect range-bound crude oil prices (\$80-90/bbl) benefiting OMCs with steady refining and marketing margins. The Corporation would benefit from the start of its Vishakhapatnam refinery expansion in Q3, as refining margins are likely to be high (an added \$2-3/bbl). We raise our FY26e but lower our rating to a Hold, with a higher TP of Rs474 (Rs387 earlier), 6x FY26e EV/EBITDA (5.5x FY25e earlier).

Slightly missing our estimates. Q1 EBITDA/PAT were Rs21bn/Rs3.6bn (we estimated Rs24.8bn/Rs6.8bn). Q1 refining throughput was 5.76m tonnes (ARe 5.7m), the GRM \$5.03/bbl (ARe \$4). In Q1, the company factored in a Rs24bn loss in sales of domestic LPG, a controlled product, pricing set by government.

Domestic LPG losses, a dampener. Q1 LPG losses arose as the government cut domestic retail prices by Rs100/cylinder to Rs802.5 in Mar'24; international prices were \$570/tonne. Despite no budgetary provision, we expect losses to be reimbursed.

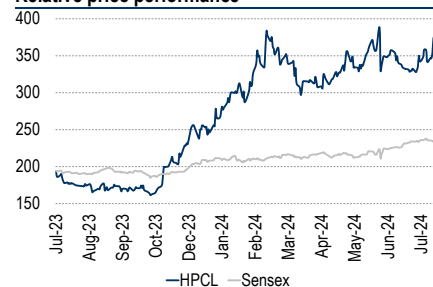
Core Q1 EBIDTA adjusted for forex, inventory and LPG losses was Rs48.8bn vs. Rs51bn in Q4. Q1 marketing volumes were 12m tonnes (up 6% y/y) and pipeline volumes were 6.8m tonnes (up 5% y/y). Debt was Rs574bn vs. Rs517bn last year, with Barmer refinery's debt at Rs320bn.

Valuation. We value the Corporation at 6x FY26e EV/EBIDTA (5.5x earlier) and add the value of investments at a 20% discount. We have a Hold rating with a higher 12-mth TP of Rs474 (Rs387 earlier). **Risks:** Persistently high crude-oil prices due to geopolitical tensions. Delay in commencing refining capacity expansion. Less-than-anticipated refining margins. Barmer refinery capex of Rs750bn is an overhang (the company holds a 74% stake).

Key data	HPCL IN
52-week high / low	Rs.399 / 159
Sensex / Nifty	81455 / 24857
3-m average volume	\$46.7m
Market cap	Rs.846bn / \$10,103.7m
Shares outstanding	2,128m

Shareholding pattern (%)	Jun-24	Mar-24	Dec-23
Promoters	54.9	54.9	54.9
- of which, Pledged	-	-	-
Free Float	45.1	45.1	45.1
- Foreign institutions	13.2	13.8	14.3
- Domestic institutions	21.5	22.2	21.3
- Public	10.4	9.1	9.5

Relative price performance



Source: Bloomberg

Key financials (YE Mar)	FY22	FY23	FY24	FY25e	FY26e
Sales (Rs bn)	3,510	4,404	4,335	3,684	3,645
EBITDA (Rs bn)	115	-75	248	173	199
Net profit (Rs bn)	77	-90	147	87	104
EPS (Rs)	54.0	-63.2	103.6	40.9	48.7
P/E (x)	6.6	-7.8	3.8	9.5	8.0
EV / EBITDA (x)	9.6	-17.5	4.8	6.3	4.8
P/BV (x)	2.0	3.0	2.0	1.7	1.4
RoE (%)	20.5	-27.0	42.7	19.3	19.5
RoCE (%)	11.3	-9.2	19.6	11.1	12.1
Dividend yield (%)	3.0	-	8.1	3.2	3.8
Net debt / equity (x)	0.9	1.8	0.9	0.5	0.2

Source: Company, Anand Rathi Research

Avishek Datta
Research Analyst

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Quick Glance – Financials and Valuations

Fig 1 – Income statement (Rs bn)

Year-end: Mar	FY22	FY23	FY24	FY25e	FY26e
Net revenues	3,509.7	4,404.0	4,335.2	3,683.9	3,644.5
Growth (%)	50.6	25.5	-1.6	-15.0	-1.1
Direct costs	3,220.2	4,270.2	3,873.9	3,277.8	3,189.4
SG&A	174.9	209.1	212.9	233.2	255.8
EBITDA	115	-75	248	173	199
EBITDA margins (%)	3.3	-1.7	5.7	4.7	5.5
- Depreciation	39.7	43.3	55.5	58.0	63.6
Other income	29.7	20.7	23.8	24.6	26.4
Interest expenses	9.7	21.3	25.2	22.0	22.0
PBT	94.9	-119.1	191.5	117.6	140.1
Effective tax rates (%)	19.2	24.7	23.3	26.0	26.0
+ Associates / (Minorities)					
Net income	76.7	-89.7	146.9	87.1	103.7
Adjusted income	76.7	-89.7	146.9	87.1	103.7
WANS	1.4	1.4	1.4	2.1	2.1
FDEPS (Rs)	54.0	-63.2	103.6	40.9	48.7

Fig 3 – Cash-flow statement (Rs bn)

Year-end: Mar	FY22	FY23	FY24	FY25e	FY26e
PBT (Adj. OI and interest)	75	-119	193	115	136
+ Non-cash items	40	43	56	58	64
Oper. prof. before WC	115	-75	248	173	199
- Incr. / (decr.) in WC	-27	-93	-32	-181	-26
Others incl. taxes					
Operating cash-flow	142	17	281	353	225
- Capex (tang. + intang.)	164	144	148	215	45
Free cash-flow	-22	-127	132	139	180
Acquisitions					
- Div. (incl. buyback & taxes)	21	-	45	26	32
+ Equity raised	-0	-	-	7	-
+ Debt raised	73	156	-103	3	-47
- Fin investments	6	1	12	-4	2
- Misc. (CFI + CFF)	10	21	(30)	(17)	(13)
Net cash-flow	13	7	2	143	113

Source: Company, Anand Rathi Research

Fig 5 – Price movement



Source: Bloomberg

Fig 2 – Balance sheet (Rs bn)

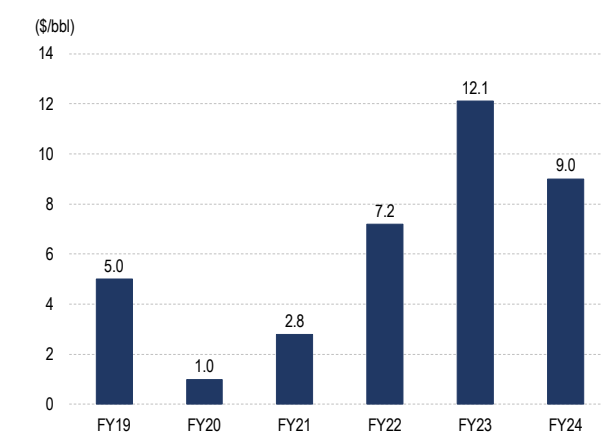
Year-end: Mar	FY22	FY23	FY24	FY25e	FY26e
Share capital	14.2	14.2	14.2	21.3	21.3
Net worth	386.8	277.1	410.3	492.1	572.7
Debt	347.6	503.1	400.3	403.0	355.8
Minority interest	-	-	-	-	-
DTL / (Assets)	62.5	30.6	70.8	78.0	86.5
Capital employed	797	811	881	973	1,015
Net tangible assets	720.6	861.7	1,012.4	1,175.0	1,146.3
Net intangible assets					
Goodwill	10.3	10.7	11.2	11.2	11.2
CWIP (tang. & intang.)	265.6	225.1	166.5	160.5	170.5
Investments (strategic)					
Investments (financial)	9.5	11.0	22.9	18.7	20.6
Current assets (excl. cash)	494.4	431.1	521.3	412.2	420.0
Cash	1.3	5.4	3.5	123.3	207.9
Current liabilities	704.8	734.0	856.5	927.9	961.4
Working capital	-210	-303	-335	-516	-541
Capital deployed	797	811	881	973	1,015
Contingent liabilities	-	-	-	-	-

Fig 4 – Ratio analysis

Year-end: Mar	FY22	FY23	FY24	FY25e	FY26e
P/E (x)	6.6	-7.8	4.8	9.5	8.0
EV / EBITDA (x)	7.4	-15.8	4.3	6.3	4.8
EV / Sales (x)	0.2	0.3	0.2	0.3	0.3
P/B (x)	1.3	2.5	1.7	1.7	1.4
RoE (%)	20.5	-27.0	42.7	19.3	19.5
RoCE (%) - after tax	11.3	-9.2	19.6	11.1	12.1
DPS (Rs)	15.0	-	31.5	12.4	14.8
Dividend yield (%)	3.0	-	6.4	2.5	3.0
Dividend payout (%) - incl. DDT	27.8	-	30.4	30.4	30.4
Net debt / equity (x)	0.9	1.8	0.9	0.5	0.2
Receivables (days)	7	6	8	5	5
Inventory (days)	37	24	29	26	26
Payables (days)	28	19	23	26	26
CFO : PAT %	184.9	-19.3	190.9	406.0	217.0

Source: Company, Anand Rathi Research

Fig 6 – GRMs have recently fallen from FY23 levels



Source: Company

Assumptions

Fig 7 – Key assumptions

	FY20	FY21	FY22	FY23	FY24	FY25e	FY26e
\$ / Rs	70.9	74.3	76.7	80.3	82.7	85.2	86.3
Brent (\$ / bbl)	61.4	44.8	80	95.6	83.0	85	80
Refining volumes (m tpa)	17.2	16.2	14.0	19.1	22.3	24.0	25.0
Refining margins (\$ / bbl)	1.0	2.8	7.2	12.1	9.0	9.5	9.6
Blended marketing margins (Rs / ltr)	3.4	3.8	(1.9)	(4.9)	4.5	3.5	4.0

Source: Company, Anand Rathi Research

Fig 8 – Quarterly trend

(Rs m)	Q1 FY25	Q4 FY24	Q/Q (%)	Q1 FY24	Q/Q (%)
Net sales	1,208,595	1,190,437	1.5	1,215,325	(0.6)
Incr./ decr. in stock	24,650	44,600	(44.7)	(11,185)	(320.4)
Raw material costs	349,538	293,048	19.3	330,924	5.6
Staff costs	7,645	8,576	(10.9)	8,894	(14.0)
Purchases	690,135	631,150	9.3	720,722	(4.2)
Duties	70,550	70,831	(0.4)	69,756	1.1
Other expenditure	45,002	46,979	(4.2)	48,176	(6.6)
Expenses	(1,187,519)	(1,095,184)	8.4	(1,167,288)	1.7
Operating profit	21,076	95,253	(77.9)	48,038	(56.1)
Interest	(7,307)	(5,881)	24.2	(7,340)	(0.5)
Depreciation	(14,757)	(13,637)	8.2	(16,113)	(8.4)
Other income	5,699	6,277	(9.2)	8,536	(33.2)
Profit before tax	4,712	82,011	(94.3)	33,121	(85.8)
Current tax	812	2,080		0	
Profit after current tax	3,900	79,931	(95.1)	33,121	(88.2)
Deferred tax	(342)	(19,187)	(98.2)	(4,693)	(92.7)
Net profit	3,558	60,744	(94.1)	28,427	(87.5)

	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25
EBIDTA	95,253	82,169	21,635	48,038	21,076
Adj. for forex	1,315	(3,635)	360	(620)	280
Adj. for inventory	0	21,000	(7,500)	(2,500)	(3,580)
LPG loss	0	0	0	0	(24,400)
Core EBIDTA	93,938	64,804	28,775	51,158	48,776
Marketing	77,884	35,970	1,768	29,309	38,738
Refining	16,053	28,834	27,007	21,849	10,039

Source: Company, Anand Rathi Research

Key Highlights

Q1 performance, slightly short of our estimates. EBITDA/PAT were Rs21bn/Rs3.5bn vs. our estimated Rs24.8bn/Rs6.8bn. Q1 refining throughput was 5.76m tonnes (ARe 5.7m) and the GRM was \$5.03/bbl (ARe \$4).

In Q1, the company factored in a loss of Rs24bn on domestic sales of LPG, a controlled product, pricing set by government.

LPG losses surfaced in Q1 as the government cut domestic retail prices by Rs100/cylinder to Rs802.5 in Mar'24; international prices are \$570/tonne. Despite no budgetary provision, we expect losses to be fully reimbursed.

Conference call highlights

A 3.55m-tpa residue upgradation project in Visakh refinery is likely to be commissioned by Q3 FY25 and to add ~\$3/bbl.

FY25/26 capex likely at Rs140bn-150bn.

HMEL's Q1 refinery throughput was 3.27m tpa, GRMs were \$10.5/bbl. PAT was >Rs3bn.

Russian crude accounted for 35-40% of the input crude mix.

A refinery unit of the Barmer project is likely to be commissioned by end-FY25.

In Q1, the company opened 126 retail outlets, to now total 22,148.

Valuation and View

We raise our FY26e earnings to factor in ~\$1/bbl higher GRMs, given the impending start of residue upgradation project at Visakh refinery.

We value the Corporation at 6x FY26e EV/EBIDTA (5.5x FY25 earlier) and add the value of investments at a 20% discount to the market price. We also add the value of the HMEL refinery (49% stake) at a similar valuation. Accordingly, our TP works out to Rs474 (Rs387 earlier).

Fig 9 – Valuation (Rs m)

FY26e EBIDTA	199,300
EV	1,195,802
Net debt	394,664
Investments	69,750
HMEL @ 48.99%	137,172
Equity	1,008,059
Target price (Rs / sh)	474

Source: Anand Rathi Research

Risks

- Sharply less-than-anticipated GRMs.
- Persistently high crude prices, resulting in higher marketing losses.

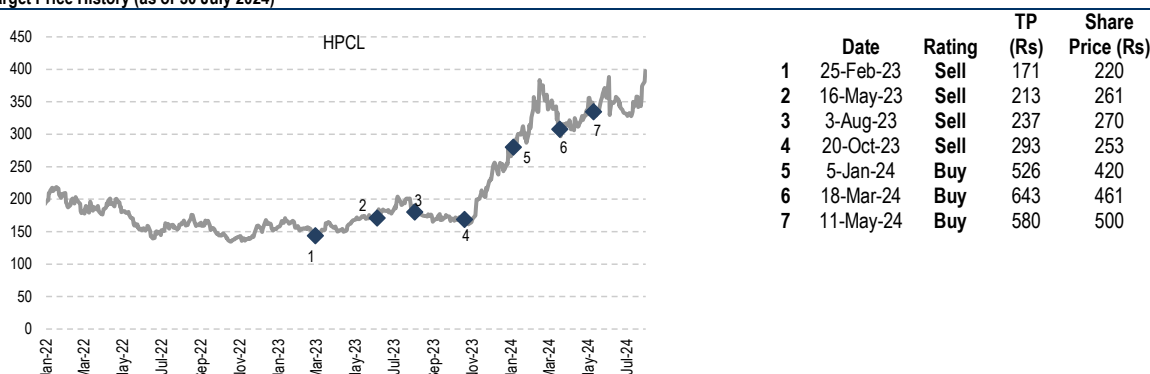
Appendix

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Compliance officer-Deepak Kedia, email id - deepakkedia@rathi.com, Contact no. +91 22 6281 7000

Grievance officer-Madhu Jain-email id- grievance@rathi.com, Contact no. +91 22 6281 7191

ARSSBL registered address: Express Zone, A Wing, 9th Floor, Western Express Highway, Diagonally Opposite Oberoi Mall, Malad (E), Mumbai – 400097.
Tel No: +91 22 6281 7000 | Fax No: +91 22 4001 3770 | CIN: U67120MH1991PLC064106.