

June 17, 2020

Q4FY20 Result Update

☑ Change in Estimates | ■ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY21E	FY22E	FY21E	FY22E
Rating	BUY		BUY	
Target Price	280		280	
Sales (Rs. m)	19,94,416	24,83,509	19,79,617	24,71,058
% Chng.	0.7	0.5		
EBITDA (Rs. m)	96,745	1,27,209	96,003	1,29,244
% Chng.	0.8	(1.6)		
EPS (Rs.)	33.9	41.9	34.2	41.0
% Chng.	(0.8)	2.4		

Key Financials - Standalone

Y/e Mar	FY19	FY20	FY21E	FY22E
Sales (Rs. bn)	2,752	2,688	1,994	2,484
EBITDA (Rs. bn)	114	51	97	127
Margin (%)	4.2	1.9	4.9	5.1
PAT (Rs. bn)	60	38	52	64
EPS (Rs.)	39.6	25.2	33.9	41.9
Gr. (%)	(5.2)	(36.2)	34.3	23.7
DPS (Rs.)	9.0	9.8	13.8	17.1
Yield (%)	4.2	4.6	6.5	8.0
RoE (%)	23.1	13.5	16.8	18.5
RoCE (%)	17.4	3.0	8.1	8.4
EV/Sales (x)	0.2	0.2	0.4	0.3
EV/EBITDA (x)	4.6	12.8	7.9	6.8
PE (x)	5.4	8.5	6.3	5.1
P/BV (x)	1.2	1.1	1.0	0.9

Key Data

HPCL.BO | HPCL IN

52-W High / Low	Rs.329 / Rs.150
Sensex / Nifty	33,508 / 9,881
Market Cap	Rs.326bn/ \$ 4,283m
Shares Outstanding	1,524m
3M Avg. Daily Value	Rs.2979.49m

Shareholding Pattern (%)

Promoter's	51.11
Foreign	17.72
Domestic Institution	21.66
Public & Others	9.51
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	13.2	(19.2)	(27.3)
Relative	5.1	(0.3)	(15.5)

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Operationally strong results

Quick Pointers:

- Lower than expected inventory loss and higher GRMs drive Q4 earnings beat.
- Healthy marketing margins due to benign crude prices and low operating cost due to weak spot LNG price to make up for weak GRMs.

We tweak our FY21/22 earnings estimates. In FY20, core EBIDTA adjusted for inventory and forex loss was stable at Rs103bn (-4% YoY vis-à-vis -55% YoY reported) despite lower refining margins (\$1.0/bbl vs \$5.0/bbl in FY19). Sharp drop in crude oil prices dragged down reported FY20 PAT, however, with its recovering part of the losses will be reversed. Benign crude oil prices to likely support marketing margins in medium term, whereas lower operating cost to compensate for weak GRMs. Maintain BUY with a PT of Rs280 as HPCL with high refining to marketing ratio is best placed in a benign crude environment.

- Lower inventory loss drive earnings:** HPCL reported higher than expected Q4FY20 results with standalone EBITDA of -Rs7.0bn (PLe -Rs19.9bn) and PAT of Rs268mn (PLe -Rs19.3bn). Operating profits beat was due to 1) lower inventory losses of Rs41.1bn (PLe Rs53.8bn) and 2) higher refining profits from crude oil discounts and higher distillate yield. EBIDTA adjusted for inventory and forex loss was at Rs43.8bn (Rs14.4bn in Q3).
- For FY20, standalone EBIDTA and PAT was at Rs51.2bn (-55%YoY) and Rs26.4bn (-56%YoY). While marketing segment EBIDTA was at Rs73bn there was a loss of Rs18bn in refining. However, adjusted for inventory and forex loss, EBIDTA was at Rs103bn (-4%YoY) with marketing EBIDTA at Rs81.9bn and refining at Rs20.5bn. Consolidated EBIDTA and PAT was at Rs56.6bn (-51%YoY) and Rs26.4bn (-61%YoY).
- Refining margins surprised positively:** HPCL's refining margins for Q4FY20 came in at -US\$1.2/bbl (Q3FY20 at US\$1.8/bbl) and included an inventory loss of Rs25.8n or US\$10.7/bbl. So core GRMs of US\$9.5/bbl were healthy due to crude oil discounts and timing difference in sourcing crude. For FY20, GRMs were at USD1.0/bbl vs USD5.0/bbl.
- GRMs are likely to remain under pressure due to 1) weak demand in a Covid pandemic scenario and 2) new capacity addition.
- Adjusted marketing profitability remains healthy:** HPCL's core Q4FY20 marketing EBIDTA was at Rs25.7bn against Rs14.1bn in Q3FY20 as margins expanded in a weak crude oil price environment. HPCL's marketing volume vis-à-vis the industry run rate was lower with HSD (-9.3% YoY vs -7.1% for industry), and MS (-2.8% YoY against industry rate of -1.2%YoY) respectively.

Exhibit 1: Q4FY20 Result Overview (Rs mn)

Y/e March	Q4FY20	Q4FY19	YoY gr. (%)	Q3FY20	FY20	FY19	YoY gr. (%)
Net sales	7,15,546	7,31,500	(2.2)	7,45,894	28,74,073	29,69,284	(3.2)
Inc/dec in stock	-6,862	-34,177	NA	21,194	-4,185	-21,665	NA
Raw material cons	1,47,762	1,57,649	(6.3)	1,47,145	5,97,407	6,96,098	(14.2)
Staff cost	8,382	7,310	14.7	7,677	31,943	29,385	8.7
Purchases	4,75,398	4,62,742	2.7	4,77,992	18,72,235	18,04,740	3.7
Duties	53,996	52,119	3.6	38,398	1,86,505	2,17,317	(14.2)
Other expenditure	43,936	34,195	28.5	34,855	1,38,972	1,28,990	7.7
Exp	-7,22,611	-6,79,838	NA	-7,27,262	-28,22,877	-28,54,864	NA
Operating profit	-7,066	51,662	NA	18,633	51,196	1,14,420	(55.3)
Interest	-3,374	-1,872	NA	-2,524	-10,817	-7,260	NA
Depreciation	-8,114	-8,285	NA	-8,659	-33,044	-30,126	NA
Other income	4,241	5,225	(18.8)	4,058	18,421	16,352	12.7
Profit before tax	-14,313	46,731	NA	11,508	25,755	93,387	(72.4)
Current tax	25,784	-14,305	NA	-3,790	13,812	-30,182	NA
Profit after current tax	11,471	32,426	(64.6)	7,718	39,567	63,204	(37.4)
Deferred tax	-1,174	-2,727	NA	-246	-3,165	-2,918	NA
Net profit	10,297	29,699	(65.3)	7,472	36,401	60,286	(39.6)

Source: Company, PL

Exhibit 2: HPCL quarterly details

	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Total throughput	4.76	4.56	4.60	3.92	4.56	4.16	4.54
Market sales							
High sulphur crude as a % of total crude	63.70	62.80	60.40	67.00	54.80	55.80	55.50
Distillate yield (%)	76.70	76.90	75.90	70.00	75.40	76.70	75.00
Pipeline throughput (MMT)	5.25	5.22	5.61	5.34	5.05	5.09	5.72
Mkt sales (MMT)	8.82	9.44	10.03	10.09	9.4	9.76	9.25
GRMs (\$/bbl)	4.81	3.72	4.51	0.75	2.83	1.79	-1.23
Inventory gains (Marketing) (Rs m)	7510	-19300	3440	-200	-130	2690	-15290
Inventory gains (Refining) (Rs m)	5,250	(15,350)	5,720	(5,160)	660	740	(25,840)
Total	12,760	(34,650)	9,160	(5,360)	530	3,430	(41,130)
Forex gains/losses (Rs m)	(8,870.0)	5,970.0	2,480.0	1,937.7	(1,220.0)	820.0	(9,750)
Inventory gains Refining/bbl	2.2	(6.3)	2.4	(2.6)	0.3	0.3	(10.7)

Source: Company, PL

Exhibit 3: Operational performance was stable for FY20

(Rs m)	FY19	FY20
Reported EBIDTA	114,420	51,235
Inventory gains/loss	13,660	(42,530)
Forex loss	(6,240)	(8,740)
Adj EBIDTA	107,000	102,505
Refining	21,069	20,586
Marketing	85,931	81,919
Inventory gains		
Marketing	6,250	(12,930)
refining	7,410	(29,600)
GRM	0.78	-3.32
Reported GRM	5.01	1.02
Actual GRM	4.23	4.34

Source: Company, PL

Conference Call Highlights:

- FY21 capex will be at Rs120bn with marketing including pipelines and lubricant at Rs50bn and refining at Rs70bn.
- Q4 GRMs of USD9.5/bbl was due to timing difference in crude sourcing. Normalized GRMs were ~USD7/bbl.
- HPCL refinery continues to operate at near rated capacity even during the Covid pandemic lockdown.
- For FY20, HMEL had loss of Rs660m while throughput was at near full levels of 11.3MTPA.
- March end debt of Rs430bn includes some short term borrowings to tide over liquidity strain during lockdown and tax payments. However, debt levels are likely to come off to Rs320bn by Q1FY21 end.
- During FY20, HPCL has installed 1,194 new retail outlets taking total to 16,476. Total CNG outlets stand at 476.



Financials

Income Statement (Rs m)

Y/e Mar	FY19	FY20	FY21E	FY22E
Net Revenues	27,51,974	26,87,664	19,94,416	24,83,509
YoY gr. (%)	-	-	-	-
Cost of Goods Sold	24,79,173	24,65,661	17,21,731	21,67,468
Gross Profit	2,72,801	2,22,003	2,72,685	3,16,040
Margin (%)	9.9	8.3	13.7	12.7
Employee Cost	29,385	31,935	32,254	34,512
Other Expenses	1,28,996	1,38,833	1,43,686	1,54,320
EBITDA	1,14,420	51,235	96,745	1,27,209
YoY gr. (%)	7.2	(55.2)	88.8	31.5
Margin (%)	4.2	1.9	4.9	5.1
Depreciation and Amortization	30,126	33,044	36,136	52,435
EBIT	84,294	18,191	60,609	74,774
Margin (%)	3.1	0.7	3.0	3.0
Net Interest	7,259	8,749	10,570	10,559
Other Income	16,352	18,382	19,770	22,166
Profit Before Tax	93,387	27,824	69,809	86,381
Margin (%)	3.4	1.0	3.5	3.5
Total Tax	33,100	(10,647)	18,150	22,459
Effective tax rate (%)	35.4	(38.3)	26.0	26.0
Profit after tax	60,287	38,470	51,659	63,922
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	60,287	38,470	51,659	63,922
YoY gr. (%)	(5.2)	(36.2)	34.3	23.7
Margin (%)	2.2	1.4	2.6	2.6
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	60,287	38,470	51,659	63,922
YoY gr. (%)	-	-	-	-
Margin (%)	2.2	1.4	2.6	2.6
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	60,287	38,470	51,659	63,922
Equity Shares O/s (m)	1,524	1,524	1,524	1,524
EPS (Rs)	39.6	25.2	33.9	41.9

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY19	FY20	FY21E	FY22E
Non-Current Assets				
Gross Block	5,09,934	6,15,215	9,70,215	13,60,215
Tangibles	5,09,934	6,15,215	9,70,215	13,60,215
Intangibles	-	-	-	-
Acc: Dep / Amortization	1,04,702	1,37,746	1,73,882	2,26,316
Tangibles	1,04,702	1,37,746	1,73,882	2,26,316
Intangibles	-	-	-	-
Net fixed assets	4,05,232	4,77,469	7,96,333	11,33,899
Tangibles	4,05,232	4,77,469	7,96,333	11,33,899
Intangibles	-	-	-	-
Capital Work In Progress	94,959	1,71,437	53,729	(2,06,271)
Goodwill	4,561	5,435	5,435	5,435
Non-Current Investments	78,810	85,888	92,992	1,00,875
Net Deferred tax assets	(71,648)	(54,915)	(59,104)	(64,287)
Other Non-Current Assets	22,019	26,954	29,649	32,614
Current Assets				
Investments	50,838	53,449	58,793	64,673
Inventories	2,01,934	1,91,412	1,44,438	1,77,062
Trade receivables	56,526	39,227	29,730	36,391
Cash & Bank Balance	956	1,132	1,245	1,369
Other Current Assets	6,843	4,159	4,575	5,032
Total Assets	10,37,508	11,40,109	13,43,186	15,72,249
Equity				
Equity Share Capital	15,242	15,242	15,242	15,242
Other Equity	2,66,506	2,74,382	3,09,139	3,52,148
Total Networkth	2,81,748	2,89,624	3,24,381	3,67,390
Non-Current Liabilities				
Long Term borrowings	1,13,172	2,22,872	2,32,872	2,42,872
Provisions	553	502	552	607
Other non current liabilities	1,237	2,115	2,326	2,559
Current Liabilities				
ST Debt / Current of LT Debt	1,37,931	1,61,458	2,61,458	3,61,458
Trade payables	1,88,767	1,12,952	1,37,262	1,75,324
Other current liabilities	2,42,448	2,95,664	3,25,230	3,57,753
Total Equity & Liabilities	10,37,508	11,40,108	13,43,186	15,72,249

Source: Company Data, PL Research



Cash Flow (Rs m)

Y/e Mar	FY19	FY20	FY21E	FY22E
PBT	93,387	25,755	69,809	86,381
Add. Depreciation	30,126	33,044	36,136	52,435
Add. Interest	7,259	10,817	10,570	10,559
Less Financial Other Income	16,352	18,382	19,770	22,166
Add. Other	-	-	-	-
Op. profit before WC changes	1,30,772	69,617	1,16,515	1,49,375
Net Changes-WC	(16,953)	12,981	63,678	(67,436)
Direct tax	(27,277)	13,812	(13,962)	(17,276)
Net cash from Op. activities	86,543	96,410	1,66,232	64,663
Capital expenditures	(1,24,152)	(1,89,633)	(2,44,229)	(1,37,630)
Interest / Dividend Income	-	-	-	-
Others	2,553	2,681	(230)	(253)
Net Cash from Inv. activities	(1,21,599)	(1,86,952)	(2,44,458)	(1,37,883)
Issue of share cap. / premium	(7,311)	(13,776)	-	-
Debt changes	55,174	1,33,226	1,10,000	1,10,000
Dividend paid	(16,533)	(17,916)	(21,090)	(26,096)
Interest paid	(7,259)	(10,817)	(10,570)	(10,559)
Others	-	-	-	-
Net cash from Fin. activities	24,070	90,718	78,340	73,345
Net change in cash	(10,985)	175	114	124
Free Cash Flow	(37,609)	(93,223)	(77,997)	(72,967)

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q1FY20	Q2FY20	Q3FY20	Q4FY20
Net Revenue	7,09,889	6,08,633	7,07,496	6,61,549
YoY gr. (%)	5.0	(9.9)	(1.9)	(2.6)
Raw Material Expenses	6,56,571	5,46,258	6,46,331	6,16,297
Gross Profit	53,319	62,375	61,165	45,252
Margin (%)	7.5	10.2	8.6	6.8
EBITDA	16,439	23,189	18,633	(7,066)
YoY gr. (%)	(48.5)	9.3	93.4	(113.7)
Margin (%)	2.3	3.8	2.6	(1.1)
Depreciation / Depletion	8,151	8,121	8,659	8,114
EBIT	8,289	15,068	9,974	(15,180)
Margin (%)	1.2	2.5	1.4	(2.3)
Net Interest	2,063	2,856	2,524	3,374
Other Income	6,165	3,957	4,058	4,241
Profit before Tax	12,390	16,170	11,508	(14,313)
Margin (%)	1.7	2.7	1.6	(2.2)
Total Tax	4,281	5,647	4,036	(24,611)
Effective tax rate (%)	34.6	34.9	35.1	171.9
Profit after Tax	8,110	10,523	7,472	10,297
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	8,110	10,523	7,472	268
YoY gr. (%)	(52.8)	(3.6)	201.9	(99.1)
Margin (%)	1.1	1.7	1.1	-
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	8,110	10,523	7,472	268
YoY gr. (%)	(52.8)	(3.6)	201.9	(99.1)
Margin (%)	1.1	1.7	1.1	-
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	8,110	10,523	7,472	268
Avg. Shares O/s (m)	-	-	-	-
EPS (Rs)	-	-	-	-

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY19	FY20	FY21E	FY22E
Per Share(Rs)				
EPS	39.6	25.2	33.9	41.9
CEPS	59.3	46.9	57.6	76.3
BVPS	184.8	190.0	212.8	241.0
FCF	(24.7)	(61.2)	(51.2)	(47.9)
DPS	9.0	9.8	13.8	17.1
Return Ratio(%)				
RoCE	17.4	3.0	8.1	8.4
ROIC	8.6	1.7	4.7	5.0
RoE	23.1	13.5	16.8	18.5
Balance Sheet				
Net Debt : Equity (x)	0.7	1.1	1.3	1.5
Net Working Capital (Days)	9	16	7	6
Valuation(x)				
PER	5.4	8.5	6.3	5.1
P/B	1.2	1.1	1.0	0.9
P/CEPS	3.6	4.6	3.7	2.8
EV/EBITDA	4.6	12.8	7.9	6.8
EV/Sales	0.2	0.2	0.4	0.3
Dividend Yield (%)	4.2	4.6	6.5	8.0

Source: Company Data, PL Research

Key Operating Metrics

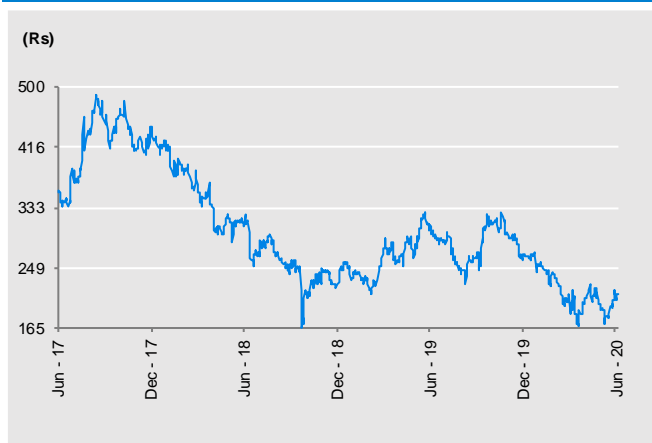
Y/e Mar	FY19	FY20	FY21E	FY22E
Crude /bbl	70	61	45	55
US\$/Rs	70	71	74	77
GRM (US\$/bbl)	5	1	3	4
Refining volume (MTPA)	18	17	17	23

Source: Company Data, PL Research



Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	08-Apr-20	BUY	280	200
2	06-Feb-20	BUY	295	237
3	03-Jan-20	BUY	354	264
4	07-Nov-19	BUY	354	310
5	03-Oct-19	BUY	434	323
6	07-Aug-19	BUY	354	244
7	04-Jul-19	BUY	326	289

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Aarti Industries	Accumulate	1,024	869
2	Bharat Petroleum Corporation	BUY	515	357
3	GAIL (India)	BUY	115	86
4	Hindustan Petroleum Corporation	BUY	280	200
5	Indian Oil Corporation	BUY	133	82
6	Indraprastha Gas	BUY	601	436
7	Mahanagar Gas	BUY	1,263	1,036
8	NOCIL	BUY	96	72
9	Oil & Natural Gas Corporation	BUY	115	74
10	Oil India	Accumulate	117	89
11	Petronet LNG	BUY	378	215
12	Reliance Industries	BUY	1,601	1,409

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly



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