

# Hindustan Petroleum Corporation

**BUY**

INDUSTRY	OIL & GAS		
<b>CMP (as on 08 Aug 2018)</b>	<b>Rs 282</b>		
<b>Target Price</b>	<b>Rs 463</b>		
Nifty	11,450		
Sensex	37,888		
KEY STOCK DATA			
Bloomberg	HPCL IN		
No. of Shares (mn)	1,524		
MCap (Rs bn) / (\$ mn)	431/6,274		
6m avg traded value (Rs mn)	1,851		
STOCK PERFORMANCE (%)			
<b>52 Week high / low</b>	<b>Rs 493/251</b>		
	<b>3M</b>	<b>6M</b>	<b>12M</b>
Absolute (%)	(7.9)	(29.3)	(35.2)
Relative (%)	(15.5)	(39.4)	(53.5)
SHAREHOLDING PATTERN (%)			
Promoters	51.11		
FIs & Local MFs	12.96		
FPIs	23.39		
Public & Others	12.54		
<i>Source : BSE</i>			

## Good show in tough times

HPCL's 1QFY19 EBITDA came in at Rs 31.91bn, up 96% YoY owing to 22% increase in GRM to USD 7.15/bbl (including inventory gains of USD 3.47/bbl). Marketing volumes were up 5% YoY while gross marketing margins were down 9.4% YoY to Rs 3.61/ltr. PAT stood at Rs 17.19bn up 86% YoY on lower other income at Rs 3.06bn (-46.4% YoY) and higher interest cost at Rs 1.91/bn (+33.5% YoY).

- In last two and half years to a peak in Aug-17, HPCL stock was up 233% (Sensex was up 14%) on account of 124% jump in EBITDA and 133% jump in PAT. However, since recording peaks in Aug-17, HPCL has been largely on a down trend and have sharply underperformed the market. The stock has corrected 42% while Sensex was up 18%. Currently stock is trading at 6.5x FY21E EV/EBITDA and 7.8x FY21E P/E. We believe these valuations are undemanding.
- Certainly, inadequate and untimely Petrol and Diesel retail price hikes as oil prices have surged is disturbing and an overhang on the stock. Gross margins are low currently compared to normalised margins. But, we believe that OMCs will be allowed to make normative

margins and thus recoup margins like in the past. HPCL's earnings are highly sensitive to change in marketing margin compared to other OMCs. Therefore, HPCL will be largest beneficiary if there is any increase in marketing margins from current level.

- We expect benchmark Singapore GRMs to remain healthy owing to strong global demand for petroleum products in CY18/19. We believe, with recent corrections most negatives seem to be priced in and valuations are compelling. **Our SOTP target is Rs 463 (5x Jun 20E EV/e for standalone refining, 8x EV/e for marketing, 9x for pipeline and Rs 159/sh from other investments). Maintain BUY.**

### Highlights of the quarter

- Refining volumes were 4.52mmt (+0.7% YoY and -2.4% QoQ). Pipeline throughput was at 5.45mmt (+17.2% YoY, +3.4% QoQ).
- Debt was reduced from Rs 209.9bn in 4Q to Rs148bn in 1QFY19.
- Near-term outlook: GRMs should remain strong, owing to strong middle distillate cracks.

### Financial Summary (Standalone)

Year Ending March (Rs bn)	1QFY19	1QFY18	YoY (%)	4QFY18	QoQ (%)	FY18	FY19E	FY20E	FY21E
Revenues	676.29	534.69	26.5	608.10	11.2	2,193.33	2,619.03	2,727.41	2,883.67
EBITDA	31.91	16.28	96.0	29.23	9.2	107.38	98.36	103.93	124.20
APAT	17.19	9.25	85.9	17.48	(1.6)	63.57	49.83	48.35	55.20
EPS (Rs/sh)	11.3	6.1	85.9	11.5	(1.6)	41.7	32.7	31.7	36.2
P/E (x)						6.8	8.7	9.0	7.8
EV/EBITDA (x)						4.9	7.0	7.8	6.5
RoE (%)						28.7	19.5	16.8	17.2

Source: Company, HDFC sec Inst Research

**Operating expenses include forex losses of Rs 5.37bn. Adjusting for this opex was up 12% YoY and down 8.3% QoQ.**

**Core EBITDA was up 4.7% to Rs 25.93bn owing to increase in GRM, crude throughput, and marketing volumes. However, offset by lower marketing margins.**

**Higher interest cost owing to 22% jump in debt to Rs148bn from Rs 122bn in 1QFY18**

**Core GRM was down mainly due to lower cracks of LPG, bitumen and higher fuel and losses.**

### Quarterly Financials Snapshot (Standalone)

(Rs bn)	1QFY19	1QFY18	YoY (%)	4QFY18	QoQ (%)
<b>Net Sales</b>	<b>676.29</b>	<b>534.69</b>	<b>26.5</b>	<b>608.10</b>	<b>11.2</b>
Raw Material and Traded goods	600.92	483.89	24.2	537.54	11.8
Employee Expenses	7.35	6.98	5.3	7.82	(6.0)
Other Expenses	36.11	27.53	31.2	33.51	7.7
<b>EBITDA</b>	<b>31.91</b>	<b>16.28</b>	<b>96.0</b>	<b>29.23</b>	<b>9.2</b>
<b>Core EBITDA*</b>	<b>25.93</b>	<b>24.76</b>	<b>4.7</b>	<b>29.54</b>	<b>(12.2)</b>
Depreciation	7.06	6.67	5.9	7.25	(2.6)
<b>EBIT</b>	<b>24.84</b>	<b>9.61</b>	<b>158.5</b>	<b>21.97</b>	<b>13.1</b>
Other Income	3.06	5.70	(46.4)	3.43	(10.8)
Interest Cost	1.91	1.43	33.5	1.78	7.5
<b>PBT</b>	<b>25.99</b>	<b>13.88</b>	<b>87.2</b>	<b>23.62</b>	<b>10.0</b>
Tax	8.80	4.64	89.8	6.14	43.2
<b>RPAT</b>	<b>17.19</b>	<b>9.25</b>	<b>85.9</b>	<b>17.48</b>	<b>(1.6)</b>
EO (Loss) / Profit (Net Of Tax)	-	-	-	-	-
<b>APAT</b>	<b>17.19</b>	<b>9.25</b>		<b>17.48</b>	
<b>AEPS</b>	<b>11.28</b>	<b>6.07</b>	<b>85.9</b>	<b>11.47</b>	<b>(1.6)</b>

### Margin Analysis

	1QFY19	1QFY18	YoY (bps)	4QFY18	QoQ (bps)
Raw Material As % Of Net Sales	88.9	90.5	(164.5)	88.4	45.9
Employee Expenses as % of Net Sales	1.1	1.3	(21.9)	1.3	(19.9)
Other Operating Expenses As % of Net Sales	5.3	5.1	19.1	5.5	(17.2)
EBITDA Margin (%)	4.7	3.0	167.3	4.8	(8.8)
Net Profit Margin (%)	2.5	1.7	81.3	2.9	(33.2)
Tax Rate (%)	33.9	33.4	46.0	26.0	783.9

### Key Quarterly Data

	1QFY19	1QFY18	YoY (%)	4QFY18	QoQ (%)
Refinery Thruput (mnT)	4.52	4.49	0.7	4.63	(2.4)
Pipeline Thruput (mnT)	5.45	4.65	17.2	5.27	3.4
Marketing Throughput (mnT)	9.72	9.26	5.0	9.45	2.9
<b>Core GRM (USD/bbl)</b>	<b>3.68</b>	<b>8.82</b>	<b>(58.3)</b>	<b>6.60</b>	<b>(44.2)</b>
Inventory Gain/(Loss) (USD/bbl)	3.47	(2.96)	(217.2)	0.47	638.3
Reported GRM (USD/bbl)	7.15	5.86	22.0	7.07	1.1
Exchange Gain/(Loss) (Rs bn)	(5.38)	1.12	(579.4)	(0.84)	540.2
Adventitious Gain/(Loss) (Rs bn)	11.35	(9.60)	(218.2)	0.53	2,041.5
Debt (Rs bn)	148.42	122.08	21.6	209.91	(29.3)

Source: Company, HDFC sec Inst Research, \*Core EBITDA net off inventory gains, forex gain/ (loss) and other operating income

**HMEL crude throughput will increase in FY19 as it complete its expansion in 1HFY18.**

**The Visakh refinery expansion will increase crude throughput for HPCL in FY21**

**Overall sales volumes to grow by 6% over FY18-FY21**

### Assumptions

	FY17	FY18	FY19E	FY20E	FY21E
<b>Refining</b>					
HPCL Throughput (mnT)	17.7	18.2	17.7	17.9	22.8
HMEL Throughput (mnT)	10.5	8.8	12.5	12.5	12.5
GRM Standalone(USD/bbl)	6.2	7.4	7.0	7.0	7.2
HMEL GRM (USD/bbl)	11.3	13.2	12.9	12.9	12.9
<b>Marketing</b>					
Volumes (mnT)	35.2	36.9	38.8	40.8	44.0
YoY Gr (%)	3.0	4.7	5.3	5.0	7.9
Diesel Volume (mn T)	17.0	17.7	18.6	19.6	20.2
Diesel Volume Gr (%)	0.8	4.4	5.0	5.0	3.5
Diesel's Margin (Rs/l)	2.6	2.6	2.6	2.7	2.9
<b>Pipeline</b>					
Volumes (mnT)	17.9	20.9	22.0	23.0	23.0
<b>Macro</b>					
Crude Price (USD/bbl)	50.0	57.5	70.0	70.0	70.0
USD - INR	67.1	66.0	68.0	68.0	68.0

Source: Company, HDFC sec Inst Research

### Change in estimates

Rs bn	FY19E			FY20E		
	Old	New	% change	Old	New	% change
Revenues	2,617.39	2,619.03	0.1	2,725.69	2,727.41	0.1
EBIDTA	96.85	98.36	1.6	102.61	103.93	1.3
APAT	48.56	49.83	2.6	46.86	48.35	3.2
AEPS	31.86	32.69	2.6	30.74	31.72	3.2

Source: Company, HDFC sec Inst Research

**Valuation (Based On Jun 20E)**

Business	EBIDTA (Rs bn)	Multiple	Value (Rs bn)	Value (Rs/sh)*	Valuation basis
<b>Standalone</b>					
Refining	40.7	5.0	203.5	133	EV/EBIDTA on Jun 20E
Marketing	56.0	8.0	447.9	294	EV/EBIDTA on Jun 20E
Pipeline	12.3	9.0	110.9	73	EV/EBIDTA on Jun 20E
Standalone net Debt			(287.3)	-188	As on Jun 19E
<b>Standalone Equity Value</b>			<b>474.9</b>	<b>312</b>	
<b>Investments</b>					
Traded investments			20.3	13	30% disc. to CMP
HMEL Investment	65.3	7.0	457.2	300	EV/EBIDTA on Jun 20E
HMEL net debt			(62.1)	-41	As on Jun 19E
HMEL Equity value			395.2	127	HPCL's stake is 48.9%
Other non traded investments				11	1x BV
<b>Investments Equity Value</b>				<b>151</b>	
<b>Value per share</b>				<b>463</b>	

Source: Company, HDFC sec Inst Research

**Peer Set Comparison**

	MCap (Rs bn)	CMP (Rs)	RECO	TP (Rs)	Upside %	EPS (Rs/sh)				P/E (x)				P/BV (x)				ROE (%)			
						FY17E	FY18E	FY19E	FY20E	FY17	FY18E	FY19E	FY20E	FY17	FY18E	FY19E	FY20E	FY17	FY18E	FY19E	FY20E
Reliance Industries	7,507	1,185	BUY	1,271	7	53.1	67.0	75.5	81.1	22.3	17.7	15.7	14.6	2.4	2.1	1.9	1.7	11.1	12.8	12.9	12.4
ONGC	2,117	165	BUY	275	67	15.5	21.1	22.5	22.8	10.6	7.8	7.3	7.3	1.1	1.0	1.0	0.9	10.5	13.6	13.5	12.9
Indian Oil Corp	1,555	164	BUY	228	39	22.5	23.0	24.5	26.9	7.3	7.1	6.7	6.1	1.5	1.3	1.2	1.1	20.3	18.7	17.9	17.6
BPCL	777	387	BUY	581	49	39.7	43.2	45.9	49.8	9.8	9.0	8.5	7.8	2.2	1.9	1.7	1.4	24.8	23.3	21.5	20.3
<b>HPCL</b>	<b>433</b>	<b>282</b>	<b>BUY</b>	<b>463</b>	<b>63</b>	<b>41.7</b>	<b>32.7</b>	<b>31.7</b>	<b>36.2</b>	<b>6.8</b>	<b>8.7</b>	<b>9.0</b>	<b>7.8</b>	<b>1.8</b>	<b>1.6</b>	<b>1.4</b>	<b>1.3</b>	<b>28.7</b>	<b>19.5</b>	<b>16.8</b>	<b>17.2</b>
Petronet LNG	345	230	BUY	316	37	13.9	13.5	16.8	19.9	16.6	17.1	13.7	11.6	3.5	3.2	2.7	2.3	23.3	19.6	21.4	21.7
GAIL	819	363	BUY	360	(1)	20.4	23.2	24.6	27.0	17.8	15.7	14.7	13.5	2.0	1.9	1.7	1.6	11.7	12.5	12.2	12.4
Oil India	239	211	BUY	338	60	23.5	30.6	32.5	33.3	9.0	6.9	6.5	6.3	0.9	0.8	0.7	0.6	9.4	11.7	11.1	10.2
Indraprastha Gas	212	303	BUY	427	41	9.6	11.3	13.1	13.4	31.6	26.9	23.2	22.6	6.0	5.3	4.6	4.1	20.9	20.9	21.2	19.1
Mahanagar Gas	90	911	BUY	1,292	42	48.4	47.7	47.4	49.1	18.8	19.1	19.2	18.6	4.3	3.9	3.5	3.2	24.3	21.3	19.1	18.0

Source: Company, HDFC sec Inst Research

**Standalone Income Statement**

Rs bn	FY17	FY18	FY19E	FY20E	FY21E
<b>Revenues</b>	<b>1,870.24</b>	<b>2,193.33</b>	<b>2,619.03</b>	<b>2,727.41</b>	<b>2,883.67</b>
<b>Growth (%)</b>	<b>4.2</b>	<b>17.3</b>	<b>19.4</b>	<b>4.1</b>	<b>5.7</b>
Material Expenses	1,634.15	1,944.47	2,370.71	2,467.27	2,593.84
Employee Expenses	29.46	28.59	32.02	32.98	34.62
Other Operating Expenses	100.85	112.89	117.95	123.24	131.00
<b>EBIDTA</b>	<b>105.77</b>	<b>107.38</b>	<b>98.36</b>	<b>103.93</b>	<b>124.20</b>
<b>EBIDTA Margin (%)</b>	<b>5.7</b>	<b>4.9</b>	<b>3.8</b>	<b>3.8</b>	<b>4.3</b>
<b>EBITDA Growth (%)</b>	<b>24.8</b>	<b>1.5</b>	<b>(8.4)</b>	<b>5.7</b>	<b>19.5</b>
<b>Core EBITDA*</b>	<b>79.06</b>	<b>96.08</b>	<b>98.36</b>	<b>103.93</b>	<b>124.20</b>
<b>Core EBITDA margin (%)</b>	<b>4.23</b>	<b>4.38</b>	<b>3.76</b>	<b>3.81</b>	<b>4.31</b>
<b>Core EBITDA growth (%)</b>	<b>(16.51)</b>	<b>21.52</b>	<b>2.37</b>	<b>5.66</b>	<b>19.51</b>
Depreciation	25.35	27.53	29.24	35.81	44.32
<b>EBIT</b>	<b>80.42</b>	<b>79.86</b>	<b>69.12</b>	<b>68.12</b>	<b>79.89</b>
Other Income Incl EO	15.15	18.49	14.12	14.47	14.76
Interest	5.36	5.67	8.13	9.71	11.44
<b>PBT</b>	<b>90.21</b>	<b>92.68</b>	<b>75.11</b>	<b>72.89</b>	<b>83.21</b>
Tax	28.12	28.45	25.28	24.53	28.01
<b>RPAT</b>	<b>62.09</b>	<b>64.24</b>	<b>49.83</b>	<b>48.35</b>	<b>55.20</b>
EO (Loss) / Profit (Net Of Tax)	0.17	0.67	-	-	-
<b>APAT</b>	<b>61.91</b>	<b>63.57</b>	<b>49.83</b>	<b>48.35</b>	<b>55.20</b>

Source: Company, HDFC sec Inst Research , \*Core EBITDA net off inventory gains, forex gain/(loss) and other operating income

**Standalone Balance Sheet**

Rs bn	FY17	FY18	FY19E	FY20E	FY21E
<b>SOURCES OF FUNDS</b>					
Share Capital	10.16	15.24	15.24	15.24	15.24
Reserves	193.31	224.24	256.63	288.06	323.94
<b>Total Shareholders' Funds</b>	<b>203.47</b>	<b>239.48</b>	<b>271.87</b>	<b>303.30</b>	<b>339.18</b>
Long-term Debt	62.79	88.31	148.60	292.60	292.60
Short-term Debt	108.92	107.62	205.62	205.62	205.62
<b>Total Debt</b>	<b>171.71</b>	<b>195.93</b>	<b>354.22</b>	<b>498.22</b>	<b>498.22</b>
Deferred Taxes	58.96	65.69	65.69	65.69	65.69
Long Term Provisions & Others	1.90	0.81	0.81	0.81	0.81
<b>TOTAL SOURCES OF FUNDS</b>	<b>436.04</b>	<b>501.92</b>	<b>692.60</b>	<b>868.03</b>	<b>903.91</b>
<b>APPLICATION OF FUNDS</b>					
Net Block	361.32	379.72	395.48	644.67	645.36
CWIP	76.20	100.91	177.10	84.29	106.01
Investments	51.09	49.99	49.99	49.99	49.99
LT Loans & Advances	4.56	4.62	10.38	3.16	4.74
Other Non-current Assets	13.39	14.09	14.09	14.09	14.09
<b>Total Non-current Assets</b>	<b>506.56</b>	<b>549.33</b>	<b>647.05</b>	<b>796.21</b>	<b>820.19</b>
Inventories	185.76	184.20	225.53	234.72	246.76
Debtors	40.64	55.73	57.54	59.92	63.35
Cash & Equivalent	0.34	11.94	8.52	36.31	34.83
Other Current Assets	51.39	66.87	145.94	149.76	161.91
<b>Total Current Assets</b>	<b>278.13</b>	<b>318.74</b>	<b>437.53</b>	<b>480.71</b>	<b>506.85</b>
Creditors	126.65	157.04	172.93	185.55	195.07
Other Current Liabilities	222.01	209.11	219.05	223.34	228.06
<b>Total Current Liabilities</b>	<b>348.66</b>	<b>366.15</b>	<b>391.98</b>	<b>408.89</b>	<b>423.13</b>
<b>Net Current Assets</b>	<b>(70.52)</b>	<b>(47.41)</b>	<b>45.55</b>	<b>71.82</b>	<b>83.72</b>
<b>TOTAL APPLICATION OF FUNDS</b>	<b>436.04</b>	<b>501.92</b>	<b>692.60</b>	<b>868.03</b>	<b>903.91</b>

Source: Company, HDFC sec Inst Research

**Standalone Cash Flow**

Rs bn	FY17	FY18	FY19E	FY20E	FY21E
Reported PBT	90.03	92.02	75.11	72.89	83.21
Non-operating & EO Items	(15.15)	(18.49)	(14.12)	(14.47)	(14.76)
Interest Expenses	5.36	5.67	8.13	9.71	11.44
Depreciation	25.35	27.53	29.24	35.81	44.32
Working Capital Change	69.51	(12.61)	(102.15)	8.74	(14.95)
Tax Paid	(18.36)	(21.71)	(25.28)	(24.53)	(28.01)
<b>OPERATING CASH FLOW ( a )</b>	<b>156.74</b>	<b>72.39</b>	<b>(29.07)</b>	<b>88.13</b>	<b>81.24</b>
Capex	(57.40)	(70.63)	(121.19)	(192.19)	(66.72)
<b>Free Cash Flow (FCF)</b>	<b>99.34</b>	<b>1.76</b>	<b>(150.26)</b>	<b>(104.05)</b>	<b>14.52</b>
Investments	10.39	18.89	14.12	14.47	14.76
<b>INVESTING CASH FLOW ( b )</b>	<b>(47.01)</b>	<b>(51.75)</b>	<b>(107.07)</b>	<b>(177.72)</b>	<b>(51.96)</b>
Debt Issuance/(Repaid)	(66.14)	24.19	158.29	144.00	-
Interest Expenses	(5.36)	(5.67)	(8.13)	(9.71)	(11.44)
<b>FCFE</b>	<b>27.84</b>	<b>20.28</b>	<b>(0.10)</b>	<b>30.24</b>	<b>3.08</b>
Share Capital Issuance	6.77	5.08	-	-	-
Dividend	(36.72)	(31.19)	(16.31)	(15.82)	(18.06)
Others	(8.19)	(1.46)	(1.13)	(1.10)	(1.25)
<b>FINANCING CASH FLOW ( c )</b>	<b>(109.64)</b>	<b>(9.04)</b>	<b>132.72</b>	<b>117.37</b>	<b>(30.76)</b>
<b>NET CASH FLOW (a+b+c)</b>	<b>0.10</b>	<b>11.60</b>	<b>(3.42)</b>	<b>27.79</b>	<b>(1.48)</b>

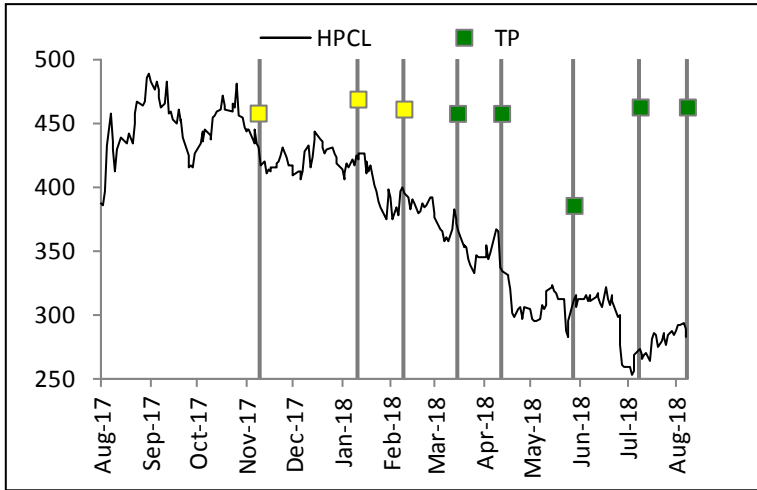
Source: Company, HDFC sec Inst Research

**Standalone Key Ratios**

	FY17	FY18	FY19E	FY20E	FY21E
<b>PROFITABILITY %</b>					
EBITDA Margin	5.7	4.9	3.8	3.8	4.3
EBIT Margin	5.1	4.5	3.2	3.0	3.3
APAT Margin	3.3	2.9	1.9	1.8	1.9
RoE	32.3	28.7	19.5	16.8	17.2
Core RoCE	21.8	24.7	18.2	11.5	9.9
RoCE	17.3	18.7	12.5	9.5	9.2
<b>EFFICIENCY</b>					
Tax Rate %	31.2	30.9	33.7	33.7	33.7
Asset turnover (x)	2.5	2.7	2.7	2.3	2.2
Inventory (days)	36	31	31	31	31
Debtor (days)	8	9	8	8	8
Other Current Assets (days)	10	11	20	20	20
Payables (days)	26	27	25	26	26
Other Curr Liab & Prov (days)	26	27	25	26	26
Cash conversion cycle (days)	2	(4)	10	8	8
Net Debt/EBITDA (x)	1.1	1.2	3.0	4.0	3.3
Net D/E	0.6	0.6	1.1	1.4	1.2
Interest Coverage	17.8	17.4	10.2	8.5	8.3
<b>PER SHARE DATA</b>					
EPS (Rs)	40.6	41.7	32.7	31.7	36.2
CEPS (Rs)	57.2	59.8	51.9	55.2	65.3
DPS (Rs)	20.0	17.0	8.9	8.6	9.8
BV (Rs)	133.4	157.1	178.4	199.0	222.5
<b>VALUATION</b>					
P/E (x)	7.0	6.8	8.7	9.0	7.8
P/Cash EPS (x)	5.0	4.8	5.5	5.1	4.3
P/BV (x)	2.1	1.8	1.6	1.4	1.3
EV/EBITDA (x)	5.1	4.9	7.0	7.8	6.5
EV/Revenue (x)	0.3	0.2	0.3	0.3	0.3
OCF/EV (%)	28.9	13.6	(4.2)	10.9	10.0
FCFF/EV (%)	18.3	0.3	(21.8)	(12.9)	1.8
FCFE/M CAP (%)	6.4	4.7	(0.0)	7.0	0.7
Dividend Yield (%)	7.0	6.0	3.1	3.0	3.5

Source: Company, HDFC sec Inst Research

**RECOMMENDATION HISTORY**



Date	CMP	Reco	Target
9-Nov-17	431	NEU	458
11-Jan-18	431	NEU	469
11-Feb-18	395	NEU	460
15-Mar-18	376	BUY	458
12-Apr-18	338	BUY	458
29-May-18	313	BUY	386
9-Jul-18	271	BUY	463
8-Aug-18	282	BUY	463

**Rating Definitions**

- BUY : Where the stock is expected to deliver more than 10% returns over the next 12 month period
- NEUTRAL : Where the stock is expected to deliver (-)10% to 10% returns over the next 12 month period
- SELL : Where the stock is expected to deliver less than (-)10% returns over the next 12 month period

**INSTITUTIONAL RESEARCH**
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