

# HPCL – Hold

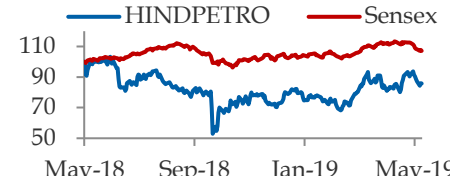
## Marketing margins continue to surprise

### Slight miss on refining more than offset by beat on marketing

HPCL reported a better than expected performance in Q4 FY19 with EBIDTA at Rs52bn (vs estimates of Rs32bn) and PAT of Rs30bn (vs estimates of Rs18bn). GRMs for the quarter were at US\$4.5/bbl vs US\$7.1/bbl in Q4 FY18 and US\$3.7/bbl in Q3 FY19. Adjusted for inventory gain of Rs5.7bn in the refining segment, GRMs were at US\$2.1/bbl. This was lower than our expectations. Marketing segment performance was ahead of estimates as EBIDTA/ton adjusted for inventory gains of Rs3.4bn was at Rs4,830 vs Rs2,678 in Q4 FY18 and Rs2,089 in Q3 FY19. In terms of operational performance, while refining throughput saw a decline of 1.5% yoy to 4.6mn tons, marketing volumes saw a robust growth of 7.7% yoy to 10.1mn tons. Foreign exchange gains of Rs2.5bn also helped the company report a better than expected PAT.

### Most levered to marketing margins, reasonable valuations

With crude oil prices on a firm trajectory on the back of rising geo political tensions in the Middle East, risks of subsidy burden on OMCs has been rising. HPCL with the most adverse refining to marketing mix is the most levered to gyrations in marketing margins. On the other hand, we expect global GRMs to see strength as the new IMO fuel regulations are implemented. Nevertheless, with large dividend payouts and significantly large capital expenditure plans, cash generation will be strained and balance sheet strength is likely to weaken. We believe, that the stock adequately prices the current volatile environment at FY21E P/E of 6.8x (a discount to IOC and BPCL). Assign a Hold rating with a 1-year price target of Rs275.

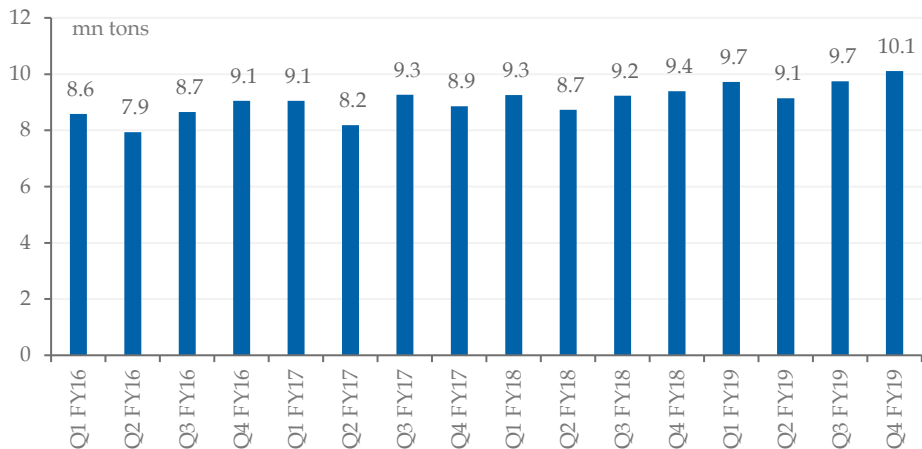
CMP (Rs) 293		12-mts Target (Rs) 275	Downside 6%
<b>Stock data</b> (As on May 20, 2019)		<b>Sector: Oil &amp; Gas</b>	
Sensex:	39,353	<b>Stock performance</b> 	
52 Week h/l (Rs)	325 / 163		
Market cap (Rs mn)	447,242		
Enterprise value (Rs mn)	589,721		
6m Avg t/o (Rs mn):	1,821		
FV (Rs):	10		
Div yield (%):	5.8		
Bloomberg code:	HPCL IS		
BSE code:	500104		
NSE code:	HINDPETRO		
<b>Shareholding pattern</b> (As of Mar'19 end)			
Promoter		0.0%	
FII+DII		37.0%	
Others		63.1%	

### Exhibit 1: Result table (Standalone)

(Rs mn)	Q4 FY19	Q4 FY18	% yoy	Q3 FY19	% qoq
Net sales	679,381	608,101	11.7	721,118	(5.8)
Operating profit	51,662	29,226	76.8	9,632	436.4
OPM (%)	7.6	4.8	280 bps	1.3	627 bps
Depreciation	(8,285)	(7,254)	14.2	(7,393)	12.1
Interest	(1,872)	(1,776)	5.4	(1,472)	27.2
Other income	5,225	3,427	52.5	3,937	32.7
PBT	46,731	23,624	97.8	4,704	893.5
Tax	(17,032)	(6,145)	177.2	(2,228)	664.3
Effective tax rate (%)	36.4	26.0		47.4	
PAT	29,699	17,479	69.9	2,476	1,099.7
PAT margin (%)	4.4	2.9	150 bps	0.3	403 bps

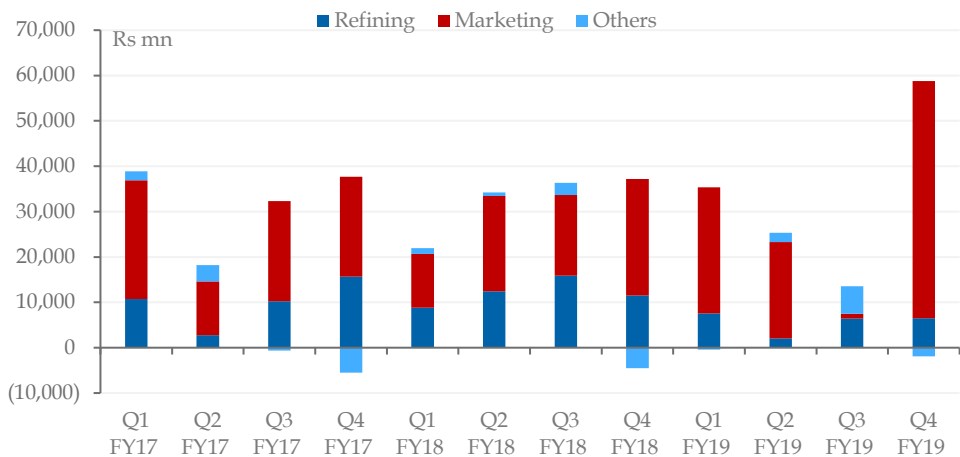
Source: Company, YES Sec – Research

**Exhibit 2: Marketing volume growth has been healthy in Q4**



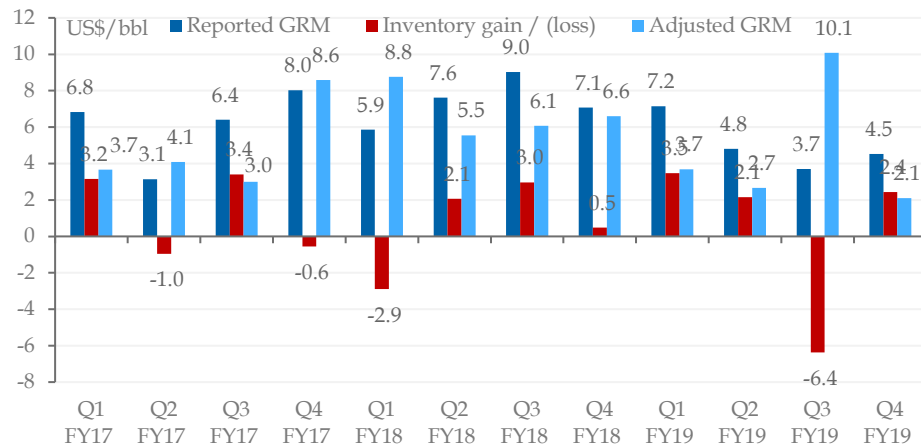
Source: Company, YES Sec - Research

**Exhibit 3: Strong marketing segment performance drives EBIDTA**



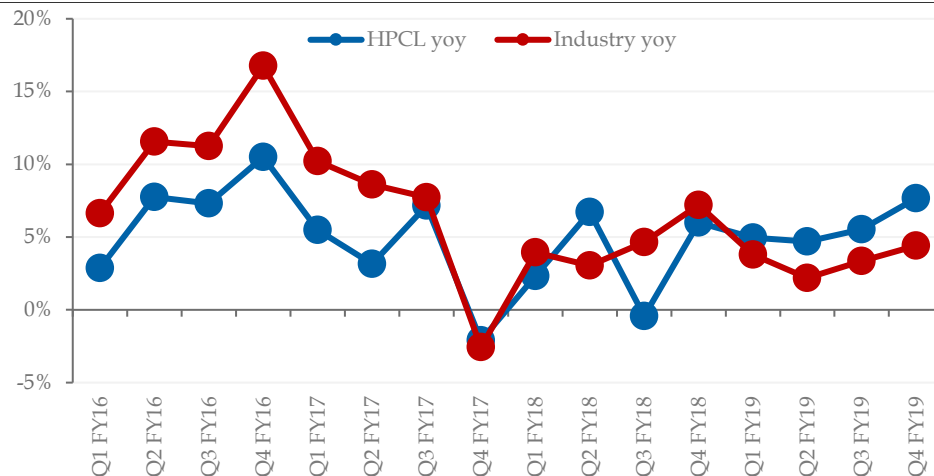
Source: Company, YES Sec - Research

**Exhibit 4: GRM performance was muted during Q4**



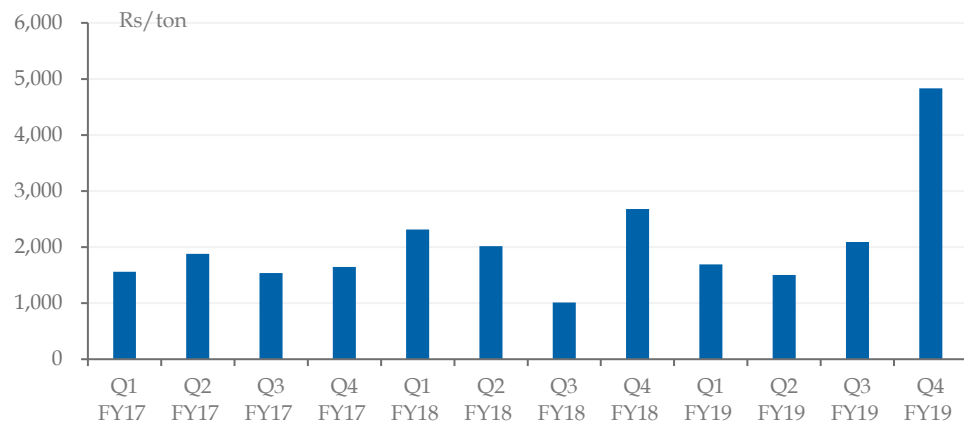
Source: Company, YES Sec - Research

**Exhibit 5: HPCL volume growth in marketing segment has been higher than industry volume growth**



Source: Company, PPAC, YES Sec - Research

## Exhibit 6: Marketing EBIDTA/ton\* improves



Source: Company, YES Sec – Research \*adjusted for inventory gains and losses

## Exhibit 7: Valuation summary

Y/e 31 Mar (Rs mn)	FY17	FY18	FY19	FY20E	FY21E
Revenues	1,870,237	2,193,326	2,751,974	2,948,183	3,308,315
yoy growth (%)	4.1	17.3	25.5	7.1	12.2
Operating profit	105,771	106,719	114,420	110,545	122,879
OPM (%)	5.7	4.9	4.2	3.7	3.7
Reported PAT	62,088	63,571	60,287	58,405	65,430
yoy growth (%)	60.7	2.4	(5.2)	(3.1)	12.0
EPS (Rs)	40.7	41.7	39.6	38.3	42.9
P/E (x)	7.2	7.0	7.4	7.6	6.8
Price/Book (x)	2.2	1.9	1.6	1.4	1.3
EV/EBITDA (x)	6.9	6.0	6.1	6.6	6.1
Debt/Equity (x)	1.4	0.8	0.9	0.9	0.9
RoE (%)	32.4	28.7	23.1	19.8	20.2
RoCE (%)	18.9	18.7	18.2	15.6	15.9

Source: Company, YES Sec – Research

## RECOMMENDATION PARAMETERS FOR FUNDAMENTAL REPORTS

Analysts assign ratings to the stocks according to the expected upside/downside relative to the current market price and the estimated target price. Depending on the expected returns, the recommendations are categorized as mentioned below. The performance horizon is 12 to 18 months unless specified and the target price is defined as the analysts' valuation for a stock. No benchmark is applicable to the ratings mentioned in this report.

**BUY > 15%**

**ADD 5% to 15%**

**HOLD -15% to +5%**

**SELL > - 15%**

**NOT RATED**

**UNDER REVIEW**

**POSITIVE:** Positive is rating given to stocks we like but yet to be formally included in our coverage universe.

**NEGATIVE:** Negative is rating given to stocks yet to be formally included in our coverage universe, but we find valuations expensive vis-a-vis fundamentals.

**NEUTRAL:** Neutral rating is given to stocks that are not under our formal coverage yet, but we find current valuation fairly representing fundamentals.

## ABOUT YES SECURITIES (INDIA) LIMITED

YES SECURITIES (INDIA) LIMITED ("YSL") was incorporated on 14th March 2013 as a wholly owned subsidiary of YES BANK LIMITED. YSL does not have any other associates. YSL is a SEBI registered stock broker holding membership of NSE and BSE. YSL is also a SEBI registered Category I Merchant Banker, Investment Adviser and a Research Analyst. YSL offers, inter alia, trading/investment in equity and other financial products along with various value added services. We hereby declare that there are no disciplinary actions taken against YSL by SEBI/Stock Exchanges.

## DISCLAIMER

Investments in securities market are subject to market risks, read all the related documents carefully before investing.

The information and opinions in this report have been prepared by YSL and are subject to change without any notice. The report and information contained herein are strictly confidential and meant solely for the intended recipient and may not be altered in any way, transmitted to, copied or redistributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of YSL.

The information and opinions contained in the research report have been compiled or arrived at from sources believed to be reliable and have not been independently verified and no guarantee, representation of warranty, express or implied, is made as to their accuracy, completeness, authenticity or validity. No information or opinions expressed constitute an offer, or an invitation to make an offer, to buy or sell any securities or any derivative instruments related to such securities. Investments in securities are subject to market risk. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. Investors should note that each security's price or value may rise or fall and, accordingly, investors may even receive amounts which are less than originally invested. The investor is advised to take into consideration all risk factors including their own financial condition, suitability to risk return profile and the like, and take independent professional and/or tax advice before investing. Opinions expressed are our current opinions as of the date appearing on this report. Investor should understand that statements regarding future prospects may not materialize and are of general nature which may not be specifically suitable to any particular investor. Past performance may not necessarily be an indicator of future performance. Actual results may differ materially from those set forth in projections.

Technical Analysis reports focus on studying the price movement and trading turnover charts of securities or its derivatives, as opposed to focussing on a company's fundamentals and opinions, as such, may not match with reports published on a company's fundamentals.

YSL, its research analysts, directors, officers, employees and associates accept no liabilities for any loss or damage of any kind arising out of the use of this report. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject YSL and associates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

### YES SECURITIES (INDIA) LIMITED

**Registered Office:** Unit No. 602 A, 6th Floor, Tower 1 & 2, Indiabulls Finance Centre,  
Senapati Bapat Marg, Elphinstone Road, Mumbai - 400013, Maharashtra, India.  
**Tel:** +91-22-71123123 | **Email:** research@yessecuritiesltd.in | **Website:** www.yesinvest.in

## DISCLOSURE OF INTEREST

Name of the Research Analyst : Prayesh Jain

The analyst hereby certifies that opinion expressed in this research report accurately reflect his or her personal opinion about the subject securities and no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendation and opinion expressed in this research report.

Sr. No.	Particulars	Yes/No
1	Research Analyst or his/her relative's financial interest in the subject company(ies)	No
2	Research Analyst or his/her relative or YSL's actual/beneficial ownership of 1% or more securities of the subject company(ies) at the end of the month immediately preceding the date of publication of the Research Report	No
3	Research Analyst or his/her relative or YSL has any other material conflict of interest at the time of publication of the Research Report	No
4	Research Analyst has served as an officer, director or employee of the subject company(ies)	No
5	YSL has received compensation or other benefits from the subject company(ies) or third party in connection with this research report	No
6	Broking/Investment Banking/Merchant Banking relationship with the subject company at the time of publication of Research Report	No
7	YSL has managed or co-managed public offering of securities for the subject company in the past twelve months	No
8	Research Analyst or YSL has been engaged in market making activity for the subject company(ies)	No

Since YSL and its associates are engaged in various businesses in the financial services industry, they may have financial interest or may have received compensation for investment banking or merchant banking or brokerage services or for any other product or services of whatsoever nature from the subject company(ies) in the past twelve months or associates of YSL may have managed or co-managed public offering of securities in the past twelve months of the subject company(ies) whose securities are discussed herein.

Associates of YSL may have actual/beneficial ownership of 1% or more and/or other material conflict of interest in the securities discussed herein.

CIN: U74992MH2013PLC240971 | SEBI Single Registration No.: NSE, BSE & MCX:  
INZ000185632 | MERCHANT BANKER: INM000012227 | RESEARCH ANALYST:  
INH000002376 | INVESTMENT ADVISER: INA000007331 | AMFI ARN Code - 94338 |

**Details of Compliance Officer:** Name: Vaibhav Purohit,  
Email id: compliance@yessecuritiesltd.in, Contact No-+91-22-33479208