

Hindustan Petroleum Corporation

BUY

INDUSTRY OIL & GAS

CMP (as on 29 May 2018) Rs 315

Target Price Rs 458

Nifty 10,633

Sensex 34,949

KEY STOCK DATA

Bloomberg HPCL IN

No. of Shares (mn) 1,524

MCap (Rs bn) / (\$ mn) 480/7,080

6m avg traded value (Rs mn) 1,859

STOCK PERFORMANCE (%)

52 Week high / low Rs 493/272

3M 6M 12M

Absolute (%) (17.1) (24.3) (13.6)

Relative (%) (19.4) (28.3) (26.0)

SHAREHOLDING PATTERN (%)

Promoters 51.11

FIs & Local MFs 12.96

FPIs 23.39

Public & Others 12.54

Source : BSE

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Strong foothold

HPCL's 4QFY18 EBITDA came in at Rs 29.23bn, down 7.5% QoQ owing to 22% decline in GRM to USD 7/bbl and higher opex, up 20% to Rs 33.5bn due to higher repair and maintenance cost. Gross marketing margins were up 50% QoQ to Rs 4.2/ltr. PAT stood at Rs 17.48bn down 10% QoQ on lower other income at Rs 3.43bn (-27.8%).

Oil prices recorded a sharp reversal as Russia and Saudi Arabia deliberated on an increase in oil output by 1mbpd to offset the supply reductions from Iran and Venezuela. As per our economist team, this reversal is in line with the view that the rally in oil prices was a deviation from the market supply demand fundamentals and a moderation in oil price was in the offing. However, the period of low (below USD70/bbl for Brent) oil prices seems to be over and prices will remain at USD 70-72/bbl.

We believe, if oil prices remain over USD 80/bbl for extended period then OMCs may have to share subsidy. This will change the business environment

Financial Summary (Standalone)

Year Ending March (Rs bn)	4QFY18	4QFY17	YoY (%)	3QFY18	QoQ (%)	FY17	FY18	FY19E	FY20E
Revenues	608.10	515.24	18.0	574.74	5.8	1,870.24	2,193.33	2,617.39	2,725.69
EBITDA	29.23	28.85	1.3	31.59	(7.5)	105.77	106.72	96.85	102.61
APAT	17.48	18.18	(3.9)	19.50	(10.4)	61.91	63.57	48.56	46.86
EPS (Rs/sh)	11.5	11.9	(3.9)	12.8	(10.4)	40.6	41.7	31.9	30.7
P/E (x)						7.7	7.5	9.8	10.2
EV/EBITDA (x)						5.5	5.6	7.9	8.8
RoE (%)						32.3	28.7	19.0	16.4

Source: Company, HDFC sec Inst Research

for these companies and investors perception towards them. In this scenario re-rating of these stocks is reasonable. However, at this stage, where at crude oil prices as high as USD 80/bbl, OMCs were able to pass on the inflation by raising the prices and stick to the policy framework. The market concerns are overdone. We do not see any reason for re-rating of OMCs. Our SOTP target is Rs 458 (5x Mar 20E EV/e for standalone refining, 8x EV/e for marketing, 9x for pipeline and Rs 158/sh from other investments). **Maintain BUY.**

Highlights of the quarter

- Refining volumes were 4.63mmt (-0.2% YoY and +2.4% QoQ. Pipeline throughput was at 5.27mnT (+12.8% YoY, +1.7% QoQ).
- HPCL-Mittal Energy Ltd (HMEL) reported core GRM of USD13.1/bbl (+24.7% YoY). Reported PAT of Rs 17.0 bn.
- Near-term outlook:** GRMs should remain strong, owing to strong middle distillate cracks.

EBITDA includes Rs 104mn worth refining inventory gains and Rs 530mn of marketing inventory gains.

Opex was up 37.5% to Rs 33.51 owing to higher repair and maintenance cost

Core GRM was up 8.2% QoQ to USD 6.6/bbl on strong middle distillate cracks

Quarterly Financials Snapshot (Standalone)

(Rs bn)	4QFY18	4QFY17	YoY (%)	3QFY18	QoQ (%)	FY18	FY17	YoY (%)
Net Sales	608.10	515.24	18.0	574.74	5.8	2,193.33	1,870.24	17.3
Raw Material and Traded goods	537.54	450.85	19.2	508.70	5.7	1,944.47	1,634.15	19.0
Employee Expenses	7.82	11.16	(29.9)	6.70	16.7	28.59	29.46	(3.0)
Other Expenses	33.51	24.38	37.5	27.76	20.7	113.56	100.85	12.6
EBITDA	29.23	28.85	1.3	31.59	(7.5)	106.72	105.77	0.9
Depreciation	7.25	6.75	7.5	6.80	6.7	27.53	25.35	8.6
EBIT	21.97	22.10	(0.6)	24.79	(11.4)	79.19	80.42	(1.5)
Other Income	3.43	4.05	(15.4)	4.74	(27.8)	18.49	15.15	22.1
Interest Cost	1.78	2.27	(21.7)	0.90	97.6	5.67	5.36	5.8
PBT	23.62	23.88	(1.1)	28.63	(17.5)	92.02	90.21	2.0
Tax	6.14	5.70	7.8	9.13	(32.7)	28.45	28.12	1.2
RPAT	17.48	18.18	(3.9)	19.50	(10.4)	63.57	62.09	2.4
EO (Loss) / Profit (Net Of Tax)	-	-	NA	-	NA	-	0.17	(100.0)
APAT	17.48	18.18		19.50		63.57	61.91	2.7
AEPS	11.46	11.92	(3.9)	12.78	(10.4)	41.71	40.58	2.8

Margin Analysis

	4QFY18	4QFY17	YoY (bps)	3QFY18	QoQ (bps)	FY18	FY17	YoY (bps)
Raw Material As % Of Net Sales	88.4	87.5	89.4	88.5	(11.3)	88.7	87.4	127.7
Employee Expenses as % of Net Sales	1.3	2.2	(88.0)	1.2	12.1	1.3	1.6	(27.2)
Other Operating Expenses As % of Net Sales	5.5	4.7	77.9	4.8	68.2	5.2	5.4	(21.5)
EBITDA Margin (%)	4.8	5.6	(79.3)	5.5	(68.9)	4.9	5.7	(79.0)
Net Profit Margin (%)	2.9	3.5	(65.4)	3.4	(51.8)	2.9	3.3	(42.1)
Tax Rate (%)	26.0	23.9	213.5	31.9	(589.1)	30.9	31.2	(25.7)

Key Quarterly Data

	4QFY18	4QFY17	YoY (%)	3QFY18	QoQ (%)	FY18	FY17	YoY (%)
Refinery Thruput (mnT)	4.63	4.64	(0.2)	4.52	2.4	18.28	17.82	2.6
Pipeline Thruput (mnT)	5.27	4.67	12.8	5.18	1.7	27.08	17.91	51.2
Marketing Throughput (mnT)	9.45	8.86	6.7	9.44	0.1	36.88	35.63	3.5
Core GRM (USD/bbl)	6.60	8.49	(22.3)	6.10	8.2	6.76	4.85	39.3
Inventory Gain/(Loss) (USD/bbl)	0.47	(0.50)	(194.0)	2.94	(84.0)	0.64	1.35	(52.5)
Reported GRM (USD/bbl)	7.07	7.99	(11.5)	9.04	(21.8)	7.40	6.20	19.3
Exchange Gain/(Loss) (Rs bn)	(0.84)	3.33	(125.2)	2.75	(130.5)	3.23	2.11	53.2
Adventitious Gain/(Loss) (Rs bn)	0.53	7.00	(92.4)	8.40	(93.7)	2.72	23.19	(88.3)
Debt (Rs bn)	209.91	211.67	(0.8)	121.24	73.1	209.91	211.67	(0.8)

Source: Company, HDFC sec Inst Research

HMEL crude throughput will increase post the expansion.

Overall sales volumes to grow by 5% over FY18-FY20

Assumptions

	FY16	FY17	FY18	FY19E	FY20E
Refining					
HPCL Throughput (mnT)	17.3	17.7	18.3	17.3	17.4
HMEL Throughput (mnT)	10.7	10.5	8.8	12.5	12.5
GRM Standalone(USD/bbl)	6.7	6.2	7.4	6.2	6.2
HMEL GRM (USD/bbl)	10.5	11.3	13.2	13.2	13.2
Marketing					
Volumes (mnT)	34.2	35.2	37.0	38.8	40.8
YoY Gr (%)	7.1	3.0	5.0	5.0	5.0
Diesel Volume (mn T)	16.9	17.0	17.8	18.7	19.7
Diesel Volume Gr (%)	6.5	0.8	5.0	5.0	5.0
Diesel's Margin (Rs/l)	2.4	2.6	2.6	2.6	2.7
Pipeline					
Volumes (mnT)	17.6	17.9	20.9	21.9	22.8
Macro					
Crude Price (USD/bbl)	48.5	50.0	57.5	70.0	70.0
USD - INR	65.5	67.1	66.0	68.0	68.0

Source: Company, HDFC sec Inst Research

Valuation (Based On Mar 20E)

Business	EBIDTA (Rs bn)	Multiple	Value (Rs bn)	Value (Rs/sh)*	Valuation basis
Standalone					
Refining	32.0	5.0	160.0	105	EV/EBIDTA on Mar 20E
Marketing	53.3	8.0	426.6	280	EV/EBIDTA on Mar 20E
Pipeline	17.3	9.0	155.7	102	EV/EBIDTA on Mar 20E
Standalone net Debt			(284.7)	-187	As on Mar 19E
Standalone Equity Value			457.5	300	
Investments					
Traded investments			23.1	15	30% disc. to CMP
HMEL Investment	68.8	7.0	481.4	316	EV/EBIDTA on Mar 20E
HMEL net debt			(70.3)	-46	As on Mar 19E
HMEL Equity value			411.2	132	HPCL's stake is 48.9%
Other non traded investments				11	1x BV
Investments Equity Value				158.3	
Value per share				458	

Source: Company, HDFC sec Inst Research

Peer valuation

	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	5,892.7	929	BUY	1,181	27	49.5	62.9	74.8	81.3	12.2	9.2	8.1	7.5	2.0	1.8	1.6	1.5	11.6	13.1	13.9	13.4
ONGC	2,374.2	185	BUY	290	57	13.9	16.1	22.1	23.2	11.7	10.1	7.4	7.0	1.3	1.2	1.1	1.1	10.2	10.9	14.0	13.8
Indian Oil Corp	1,459.9	154	BUY	224	46	20.2	22.5	23.5	24.6	6.5	5.9	5.6	5.3	1.5	1.3	1.2	1.1	20.3	20.3	19.1	18.0
BPCL	786.8	394	BUY	584	48	40.2	35.1	42.0	45.5	5.9	6.8	5.7	5.3	2.7	2.3	2.0	1.7	28.2	21.9	22.7	21.3
HPCL	480.1	315	BUY	458	46	40.6	41.7	31.9	30.7	4.9	5.5	6.5	6.7	2.3	2.0	1.8	1.6	32.3	28.7	19.0	16.4
Petronet LNG	316.5	211	BUY	302	43	11.4	13.9	13.5	16.8	20.8	18.3	17.4	14.0	3.9	3.3	2.9	2.5	23.2	23.3	19.6	21.4
Oil India	269.0	237	BUY	334	41	23.8	23.5	30.9	32.7	5.5	5.7	4.5	4.2	0.9	0.8	0.8	0.7	10.5	8.8	10.5	10.0
Indraprastha Gas	177.1	253	BUY	422	67	8.2	9.6	11.3	13.1	31.3	25.8	21.9	19.5	6.1	5.0	4.4	3.8	21.0	20.9	21.1	21.2
Mahanagar Gas	78.0	790	BUY	1,259	59	39.8	48.4	45.1	46.6	23.7	19.2	20.9	20.2	4.2	3.7	3.4	3.1	22.1	24.3	20.2	18.9
Asian Oil Field Services	4.9	130	NA	166	28	1.5	13.0	12.3	16.6	132.3	8.9	5.3	7.6	10.6	2.8	2.3	1.8	17.3	44.8	22.3	23.9

Source: Company, HDFC sec Inst Research

Standalone Income Statement

Rs bn	FY16	FY17	FY18	FY19E	FY20E
Revenues	1,795.71	1,870.24	2,193.33	2,617.39	2,725.69
Growth (%)	(13.1)	4.2	17.3	19.3	4.1
Material Expenses	1,566.50	1,634.15	1,944.47	2,370.10	2,466.37
Employee Expenses	23.15	29.46	28.59	32.02	32.98
Other Operating Expenses	121.35	100.85	113.56	118.43	123.73
EBIDTA	84.72	105.77	106.72	96.85	102.61
EBIDTA Margin (%)	4.7	5.7	4.9	3.7	3.8
EBITDA Growth (%)	78.0	24.8	0.9	(9.3)	6.0
Core EBITDA (Ex-Inventory gains and other operating income)	94.70	79.49	95.99	96.85	102.61
Core EBITDA margin (%)	5.27	4.25	4.38	3.70	3.76
Core EBITDA growth (%)	77.81	(16.07)	20.76	0.89	5.95
Depreciation	26.59	25.35	27.53	28.67	35.17
EBIT	58.13	80.42	79.19	68.17	67.43
Other Income Incl EO	11.38	15.15	18.49	13.27	13.57
Interest	9.25	5.36	5.67	8.24	10.38
PBT	60.26	90.21	92.02	73.20	70.63
Tax	18.75	28.12	28.45	24.64	23.77
RPAT	41.50	62.09	63.57	48.56	46.86
EO (Loss) / Profit (Net Of Tax)	2.88	0.17	-	-	-
APAT	38.63	61.91	63.57	48.56	46.86

Source: Company, HDFC sec Inst Research

Standalone Balance Sheet

Rs bn	FY16	FY17	FY18P	FY19E	FY20E
SOURCES OF FUNDS					
Share Capital	3.39	10.16	15.24	15.24	15.24
Reserves	176.31	193.31	224.24	255.80	286.26
Total Shareholders Funds	179.70	203.47	239.48	271.05	301.50
Long-term Debt	105.07	62.79	88.31	148.60	292.60
Short-term Debt	38.88	108.92	107.62	205.62	205.62
Total Debt	143.95	171.71	195.93	354.22	498.22
Deferred Taxes	49.19	58.96	65.69	65.69	65.69
Long Term Provisions & Others	95.73	1.90	0.81	0.81	0.81
TOTAL SOURCES OF FUNDS	468.57	436.04	501.92	691.77	866.23
APPLICATION OF FUNDS					
Net Block	331.08	361.32	379.72	396.17	646.00
CWIP	74.40	76.20	100.91	178.05	85.05
Investments	49.91	51.09	49.99	49.99	49.99
LT Loans & Advances	5.65	4.56	4.62	10.02	3.26
Other Non-current Assets	9.81	13.39	14.09	14.09	14.09
Total Non-current Assets	470.85	506.56	549.33	648.33	798.39
Inventories	132.11	185.76	184.20	194.80	202.72
Debtors	37.89	40.64	55.73	57.50	59.88
Cash & Equivalents	0.24	0.34	11.94	8.39	8.39
Other Current Assets	54.70	51.39	66.87	167.62	188.74
Total Current Assets	224.94	278.13	318.74	428.31	459.73
Creditors	94.17	126.65	157.04	172.89	179.91
Other Current Liabilities	133.05	222.01	209.11	211.98	211.98
Total Current Liabilities	227.22	348.66	366.15	384.87	391.89
Net Current Assets	(2.28)	(70.52)	(47.41)	43.44	67.84
TOTAL APPLICATION OF FUNDS	468.57	436.04	501.92	691.77	866.23

Source: Company, HDFC sec Inst Research

Standalone Cash Flow

Rs bn	FY16	FY17	FY18E	FY19E	FY20E
Reported PBT	57.38	90.03	92.02	73.20	70.63
Non-operating & EO Items	(11.38)	(15.15)	(18.49)	(13.27)	(13.57)
Interest Expenses	9.25	5.36	5.67	8.24	10.38
Depreciation	26.59	25.35	27.53	28.67	35.17
Working Capital Change	18.04	69.51	(12.61)	(99.81)	(17.63)
Tax Paid	(10.60)	(18.36)	(21.71)	(24.64)	(23.77)
OPERATING CASH FLOW (a)	89.29	156.74	72.39	(27.60)	61.20
Capex	(51.84)	(57.40)	(70.63)	(122.27)	(192.00)
Free Cash Flow (FCF)	37.46	99.34	1.76	(149.87)	(130.80)
Investments	6.56	10.40	18.89	13.27	13.57
INVESTING CASH FLOW (b)	(45.28)	(47.01)	(51.75)	(109.01)	(178.43)
Debt Issuance/(Repaid)	(15.55)	(66.14)	24.19	158.29	144.00
Interest Expenses	(9.25)	(5.36)	(5.67)	(8.24)	(10.38)
FCFE	12.66	27.84	20.28	0.18	2.83
Share Capital Issuance	(6.78)	6.77	5.08	-	-
Dividend	(14.06)	(36.72)	(31.19)	(16.31)	(15.74)
Others	1.69	(8.19)	(1.46)	(0.69)	(0.66)
FINANCING CASH FLOW (c)	(43.95)	(109.64)	(9.04)	133.05	117.22
NET CASH FLOW (a+b+c)	0.07	0.10	11.60	(3.55)	0.00
EO Items, Others	-	-	-	-	-
Closing Cash & Equivalents	0.24	0.34	11.94	8.39	8.39

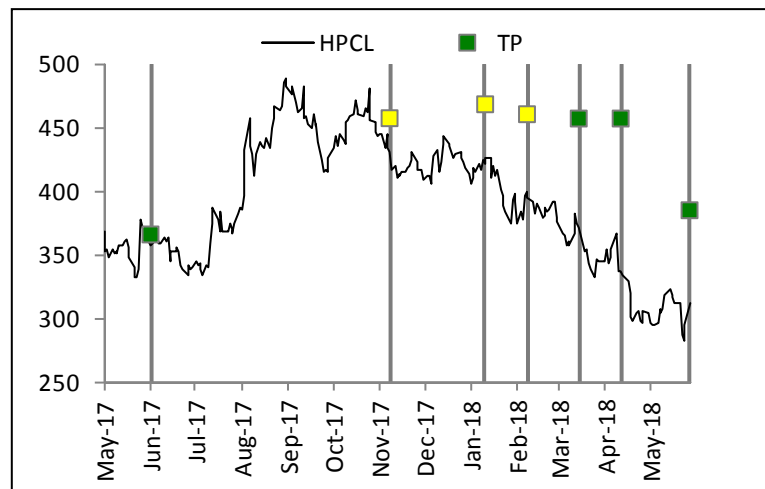
Source: Company, HDFC sec Inst Research

Standalone Key Ratios

	FY16	FY17	FY18E	FY19E	FY20E
PROFITABILITY %					
EBITDA Margin	4.7	5.7	4.9	3.7	3.8
EBIT Margin	3.9	5.1	4.5	3.1	3.0
APAT Margin	2.2	3.3	2.9	1.9	1.7
RoE	22.7	32.3	28.7	19.0	16.4
Core RoCE	12.5	21.8	24.7	18.0	11.4
RoCE	10.3	17.3	18.7	12.3	9.4
EFFICIENCY					
Tax Rate %	32.7	31.2	30.9	33.7	33.7
Asset turnover (x)	2.7	2.5	2.7	2.7	2.3
Inventory (days)	27	36	31	27	27
Debtor (days)	8	8	9	8	8
Other Current Assets (days)	11	10	11	23	25
Payables (days)	20	26	27	25	25
Other Curr Liab & Prov (days)	20	26	27	25	25
Cash conversion cycle (days)	5	2	(4)	8	10
Net Debt/EBITDA (x)	1.1	1.1	1.3	3.1	4.3
Net D/E	0.5	0.6	0.6	1.1	1.5
Interest Coverage	7.5	17.8	17.2	9.9	7.8
PER SHARE DATA					
EPS (Rs)	25.3	40.6	41.7	31.9	30.7
CEPS (Rs)	42.8	57.2	59.8	50.7	53.8
DPS (Rs)	7.7	20.0	17.0	8.9	8.6
BV (Rs)	117.8	133.4	157.1	177.8	197.8
VALUATION					
P/E (x)	12.4	7.7	7.5	9.8	10.2
P/Cash EPS (x)	7.3	5.5	5.2	6.2	5.8
P/BV (x)	2.7	2.3	2.0	1.8	1.6
EV/EBITDA (x)	6.7	5.5	5.6	7.9	8.8
EV/Revenue (x)	0.3	0.3	0.3	0.3	0.3
OCF/EV (%)	15.7	26.7	12.0	(3.6)	6.7
FCFF/EV (%)	6.6	17.0	0.3	(19.7)	(14.4)
FCFE/M CAP (%)	2.7	5.8	4.3	0.0	0.6
Dividend Yield (%)	2.4	6.4	5.4	2.8	2.7

Source: Company, HDFC sec Inst Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
3-Jun-17	358	BUY	367
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	315	BUY	458

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

Disclosure:

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