

**BSE SENSEX** 79,106  
**S&P CNX** 24,144

**CMP: INR373**

**TP: INR460 (+23%)**

**Buy**



### Stock Info

Bloomberg	HPCL IN
Equity Shares (m)	1419
52-Week Range (INR)	793.9 / 9.5
1, 6, 12 Rel. Per (%)	407 / 159
M.Cap. (INR b)	11/-8/88
M.Cap. (USD b)	3637
Avg Val, INRm	45.1
Free float (%)	HPCL IN

### Financials Snapshot (INR b)

Y/E March	FY24	FY25E	FY26E
Sales	4,339	4,063	3,962
EBITDA	249	131	192
Adj. PAT	160	57	100
Adj. EPS (INR)	75	27	47
EPS Gr. (%)	LP	-64	76
BV/Sh.(INR)	220	240	274

### Ratios

Net D:E	1.3	1.3	1.1
RoE (%)	40.4	11.6	18.3
RoCE (%)	15.9	5.5	8.5
Payout (%)	27.9	26.7	28.4

### Valuations

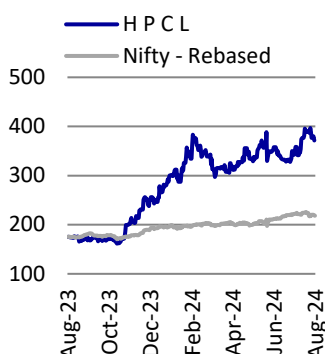
P/E (x)	5.0	14.0	8.0
P/BV (x)	1.7	1.6	1.4
EV/EBITDA (x)	5.7	11.0	7.5
Div. Yield (%)	5.6	1.9	3.6
FCF Yield (%)	17.5	1.6	7.1

### Shareholding pattern (%)

As On	Jun-24	Mar-24	Jun-23
Promoter	54.9	54.9	54.9
DII	21.5	22.2	22.3
FII	13.2	13.8	14.0
Others	10.4	9.1	8.8

FII Includes depository receipts

### Stock Performance (1-year)



## HRRL — White elephant or prized asset?

- HPCL's Rajasthan Refinery (HRRL) is set to start operations in FY26 and will add ~30% to HPCL's refining capacity. At peak capacity utilization (likely in FY28), HRRL will contribute ~37% to HPCL's FY26E EBITDA. HPCL will account for HRRL on a joint venture basis (74% stake).
- HRRL's start coincides with what we view as the golden age of refining, as global net refining capacity additions in 2024-30 are estimated to be only 3.3mb/d, implying an average annual net capacity addition of 470kb/d, down 40% compared to the 780kb/d average observed during 2010-19.
- HPCL's marketing-to-refining ratio is set to improve from 2.1x now to ~1.6x after the completion of its bottom upgradation unit (Oct'24) and HRRL start-up, and further to 1x if the merger with MRPL materializes. This will lower earnings volatility/under-recovery related uncertainty and drive structural improvement in the business.
- Lastly, with Castrol trading at 15.5x FY26E EV/EBITDA, the demerger of HPCL's lubricant business and listing can unlock up to INR33/share in value.
- We reiterate BUY on HPCL with SoTP-based target price of INR460/share.

### HRRL to add ~30% to HPCL's refining capacity

- HRRL will add ~30% to HPCL's existing refining capacity (adjusted for 74% stake in HRRL).
- After the completion of its bottom upgradation unit and the commissioning of HRRL, the company's marketing-to-refining ratio will improve to 1.55x from 2.1x, thus lowering earnings volatility from marketing business.
- At peak capacity utilization (likely to be reached in FY28) for both refining and petrochemical units, HRRL will contribute ~37% to HPCL's FY26E EBITDA.

### HRRL to generate >10% RoCE at 100% utilization

- Based on our assumptions, HRRL is estimated to generate RoE of ~5.5% and PAT of INR9.3b in FY28 (~6% of HPCL's consolidated FY26E PAT of INR100b; adjusted for 74% share).
- Note that while we have assumed mid-cycle margins for both refining and petrochemicals, global capacity growth is decelerating sharply in both segments and every USD1/bbl and USD100/t change in refining/petchem spreads leads to 7%/19% increase in FY27 EBITDA for HRRL.
- While RoE is poor, we estimate HRRL to achieve healthy RoCE of 10.3%/10.6% in FY28/FY29, which will improve to 10.9% by FY30.

### We assume GRM of USD8/bbl, mid-cycle petchem margins

- We assume gross refining margin of USD8/bbl and PE/PP spreads over naphtha of USD472/USD468 per ton, based on five-year average spreads.
- We build in refinery utilization of 70%/90%/100% in FY26/FY27/FY28. For the petrochemical unit, we build in utilization of 50%/70%/100% in FY26/FY27/FY28.

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

Motilal Oswal research is available on [www.motilaloswal.com/Institutional-Equities](http://www.motilaloswal.com/Institutional-Equities), Bloomberg, Thomson Reuters, Factset and S&P Capital.

- For the petrochemical segment, PE naphtha and PP naphtha spread of USD468 and USD472 per ton, respectively (in line with five-year average).
- We assume a debt-equity ratio of 67% and an interest rate of 11.5%.

### Refining enters a golden period amid annual capacity growth of 470kb/d, down 40% vs. historical

- According to IEA, during 2024-2030, the global refining capacity is expected to see modest growth, with total capacity projected to increase from 104.2mb/d to 107.4mb/d. This period will see net capacity additions of 3.3mb/d, which are lower than the 4.4mb/d forecast earlier by IEA for the 2023-2028 period.
- The net additions include 5.1mb/d from new projects, offset by 1.8mb/d from announced closures. About 0.8mb/d of capacity closures would happen in 2025. In addition, IEA potentially sees upside risk to the capacity closure forecast of 1.8mb/d over 2024-30.
- The average annual net capacity additions of 470kb/d represent a notable decrease compared to the 780kb/d average observed from 2010 to 2019.
- We also note that beyond 2026, net refinery capacity additions are expected to be sparse. Of the IEA's projected net capacity growth of 3.3mb/d, 85% would start operations by 2026, with only 474kb/d (15% of 3.3mb/d) capacity set to be commissioned in 2027-30.
- As such, stronger-than-expected oil demand growth can keep Singapore GRM above the mid-cycle level of USD6-6.5/bbl.
- New refining capacity additions and expansions, as expected, remain concentrated in India, China, Africa and the Middle East, while the Americas and Europe together account for 48% of net forecast capacity closures.

### Marketing: Refining ratio to decline from 2.1x to 1x in coming years

- HPCL's FY24 marketing-to-refining ratio currently stands at 2.1x, i.e., HPCL buys substantial marketing volumes from other refineries, on which it faces earnings volatility. However, once the bottom upgradation facility at its Visakhapatnam refinery is fully operational (expected by 3QFY25), another 1.3mmtpa will be added to the refining capacity.
- Additionally, HRRL's commissioning will add another 6.67mmtpa to HPCL's refining throughput (at 100% capacity utilization). HRRL is expected to be commissioned by FY26 and we expect it to attain 70%/100% refining capacity utilization by FY26/FY28.
- In case of MRPL's merger with HPCL, another 16.6mmtpa of throughput will be added to HPCL's refining throughput.
- All these additions will reduce HPCL's marketing-to-refining ratio from 2.1x to 1x, sharply lowering earnings volatility from marketing business.

### Exhibit 1: HPCL's marketing and refining throughput to equalize in long run

Marketing		<i>in mmt</i>
HPCL's FY24 Marketing Sales		46.8
HPCL's FY26E Marketing Sales		50.6
Refining		<i>in mmt</i>
HPCL's FY24 Refinery Throughput		22.3
+ Bottom Upgradation at Visakhapatnam (BU)		1.3
+ HRRL throughput at 100% capacity (net to HPCL)		6.7
+ MRPL's FY24 throughput		16.6
		<b>46.9</b>

Source: Company, MOFSL

**INR33/share option value from lubricant business listing**

- In the 1QFY25 earnings call, HPCL's management stated that their lubricant business generates annual EBITDA of ~INR10b.
- Even after applying a 20% discount to Castrol's CY25E EV/EBITDA ratio of ~15.5x, HPCL's lubricant business attains a value of INR141.5b.
- Currently, HPCL trades at EV/EBITDA of ~5.7x. Hence, the potential demerger of its lubricant business can unlock an incremental value of ~INR33/share.

**Exhibit 2: HPCL's lubricant business option value per share**

Particulars	INR b
Lubricant business EBITDA	10.0
(x) incremental EV/EBITDA	7
HPCL's shares o/s (in b)	2.1
<b>Lubricant business value/share unlocked</b>	<b>32.9</b>

Source: Company, MOFSL

**Balance sheet to strengthen further amid healthy FCF generation**

- HPCL's consolidated net debt decreased to INR623b in FY24. The net debt-to-equity (D/E) ratio decreased from 2.1x in FY23 to 1.3x in FY24. We expect the D/E ratio to strengthen further to 1.1x by FY26, led by strong EBITDA generation of INR131b/INR192b in FY25E/FY26E.
- We build in healthy FCF generation of INR13b/INR57b in FY25E/FY26E as we see the capex cycle tapering off in coming years.

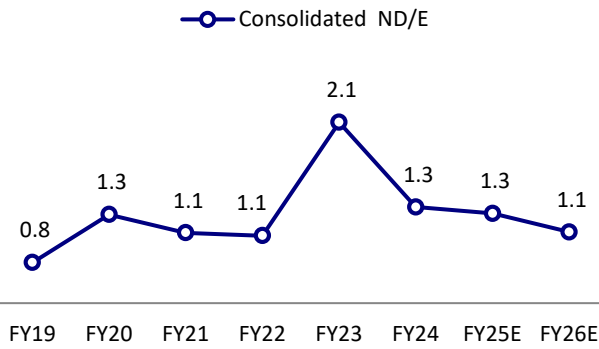
**Valuation and view**

- **HPCL** remains our preferred pick among the three OMCs. We model a marketing margin of INR3.3/lit for both MS and HSD in FY25-26E, while the current MS/HSD marketing margins are INR6.9/lit and INR4.9/lit, respectively. We see the following as key catalysts for the stock: 1) demerger and potential listing of lubricant business, 2) the commissioning of its bottom upgrade unit, and 3) the start of its Rajasthan refinery in 4QFY25-end.
- HPCL currently trades at 1.4x FY26E P/B, which we believe offers a reasonable margin of safety as we estimate FY26E RoE of 18.3%. Our SoTP-based TP includes:
  - The standalone refining and marketing business at 6.7x FY26 EV/EBITDA.
  - INR33/share as potential value unlocking from de-merger of the lubricant business.
  - HMEL at 8x P/E based on its FY24 PAT (HPCL's share), deriving a value of INR35/share.
  - Chhara Terminal at 1x P/B, and HPCL's HRRL stake at 0.5x of HPCL's equity investment in the project to date. MRPL stake is valued at MOFSL's TP.
- Accordingly, we arrive at a revised TP of INR460. **Reiterate BUY.**

**Exhibit 3: HPCL SoTP based valuation**

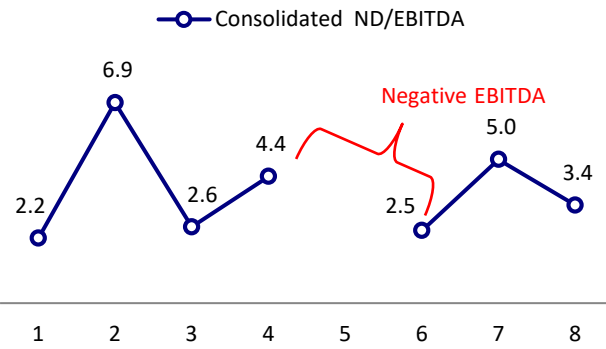
Particulars	Earning metric		Valuation metric	Multiple	Amount (INR m)
HPCL standalone	FY26E EBITDA	1,90,887	EV/EBITDA	6.7	12,76,652
(-) Standalone FY26E Net Debt					5,85,492
<b>Standalone Market Cap</b>					<b>6,91,160</b>
+ Lubricant business- value unlocking	FY24 EBITDA	10,000	EV/EBITDA	7.0	70,000
+ MRPL	MOFSL TP	50,504			50,504
+ HMEL	FY24 PAT	9,310	P/E	8.0	74,480
+ Chhara terminal	Book Value	12,232	P/B	1.0	12,232
+ HRRL	Equity invested till date		P/B	0.5	80,000
<b>SoTP</b>					<b>9,78,375</b>
<b>(/) shares outstanding</b>					<b>2,128</b>
<b>TP (INR/share)</b>					<b>460</b>

**Exhibit 4: HPCL's consol. ND/EBITDA to decline**



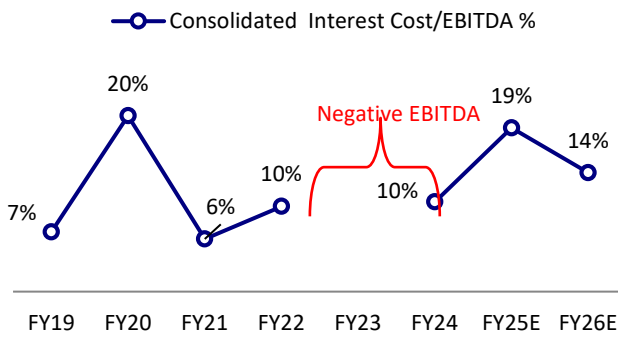
Source: Company, MOFSL

**Exhibit 5: HPCL's ND/EBITDA expected to stabilize**



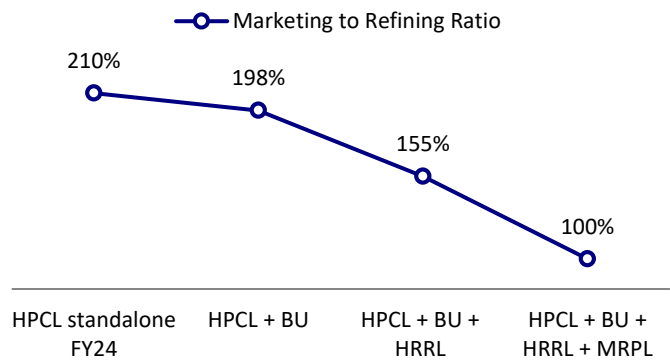
Source: MOFSL, Company

**Exhibit 6: HPCL's consol. interest cost/EBITDA**



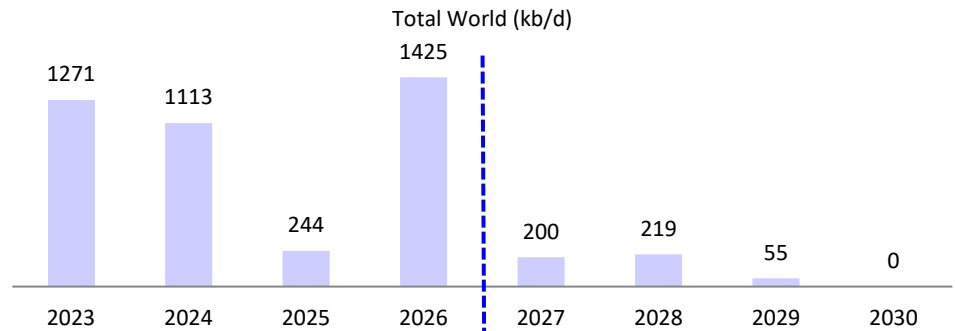
Source: Company, MOFSL

**Exhibit 7: HPCL's marketing/refining ratio to improve**



Source: MOFSL, Company

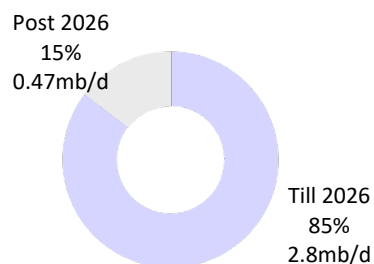
**Exhibit 8: World's net refining capacity additions and expansions (3.3mb/d), 2023-2030**



Source: IEA, MOFSL

**Exhibit 9: Diminishing net capacity additions and expansions post 2026**

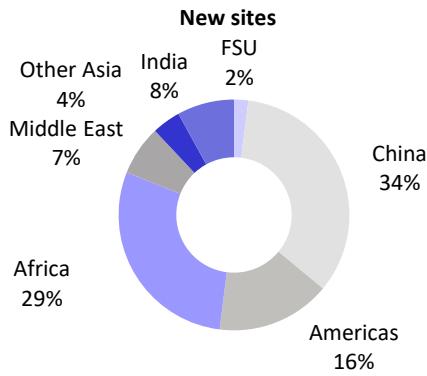
Net capacity Additions and Expansions



Source: IEA, MOFSL

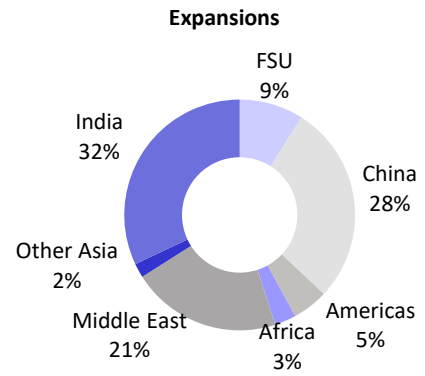
Source: IEA, MOFSL

**Exhibit 10: Additions in CDU capacity by region, 2023-30**



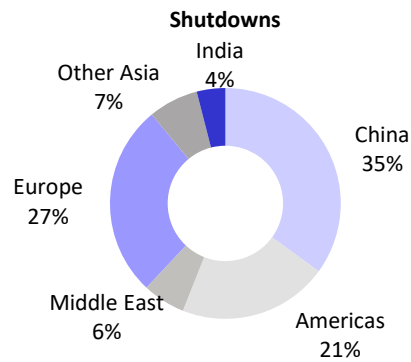
Source: IEA, MOSL

**Exhibit 11: Expansions in CDU capacity by region, 2023-30**



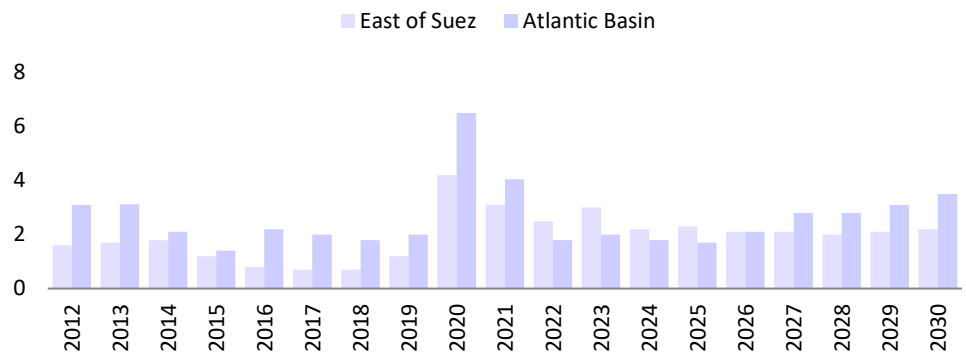
Source: IEA, MOSL

**Exhibit 12: Shutdowns in CDU capacity by region, 2023-30**



Source: IEA, MOSL

**Exhibit 13: Refining capacity at risk of closure from low utilization, 2012-2030**

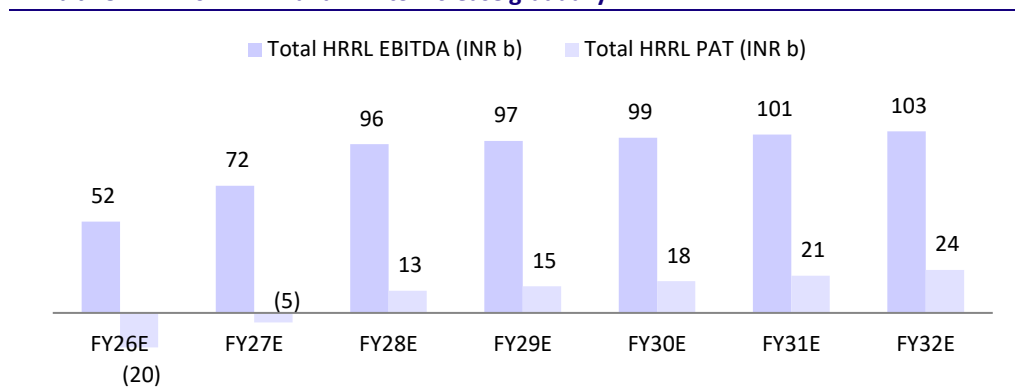


Source: IEA, MOFSL

**Exhibit 14: HRRL Key Assumptions**

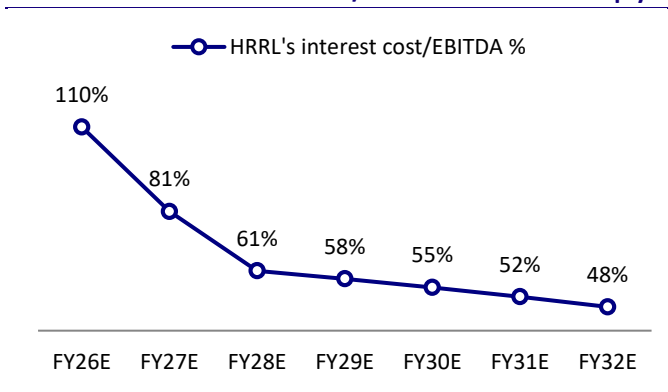
Total project cost	7,29,370		
Debt %	67%		
Interest rate	11.5%		
Life of plant (years)	35.0		
<b>Refining</b>		<b>FY26E</b>	<b>FY27E</b>
Exchange rate (INR/USD)		85.0	86.6
<b>Refining</b>		<b>FY26E</b>	<b>FY27E</b>
Utilisation %		70%	90%
Assumed GRM USD/bbl		8.0	8.0
<b>Petro-chemicals</b>			
Utilisation %		50%	70%
PP - 5Y average selling price USD/t		1,081	1,081
PP spread over naphtha USD/t		472	472
PE - 5Y avg. selling price USD/t		1,077	1,077
PE spread over naphtha USD/t		468	468
Butadiene-5Y avg. selling price USD/t		973	973
Butadiene spread over naphtha USD/t		364	364
Benzene - 5Y avg. selling price USD/t		821	821
Benzene spread over naphtha USD/t		212	212
Toluene - 5Y avg. selling price USD/t		934	934
Toluene spread over naphtha USD/t		325	448

**Exhibit 15: HRRL's EBITDA and PAT to increase gradually**



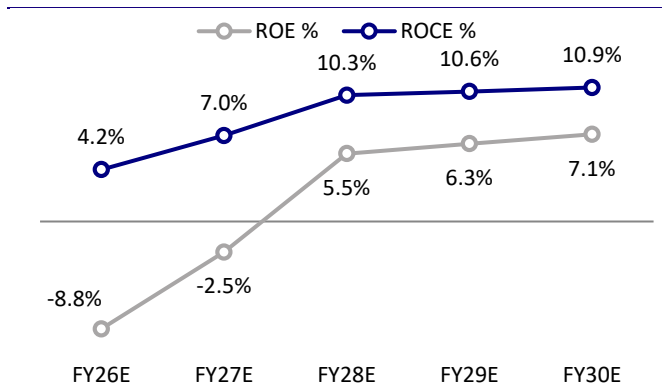
Source: IEA, MOFSL

**Exhibit 16: HRRL's interest cost/EBITDA to decline sharply**



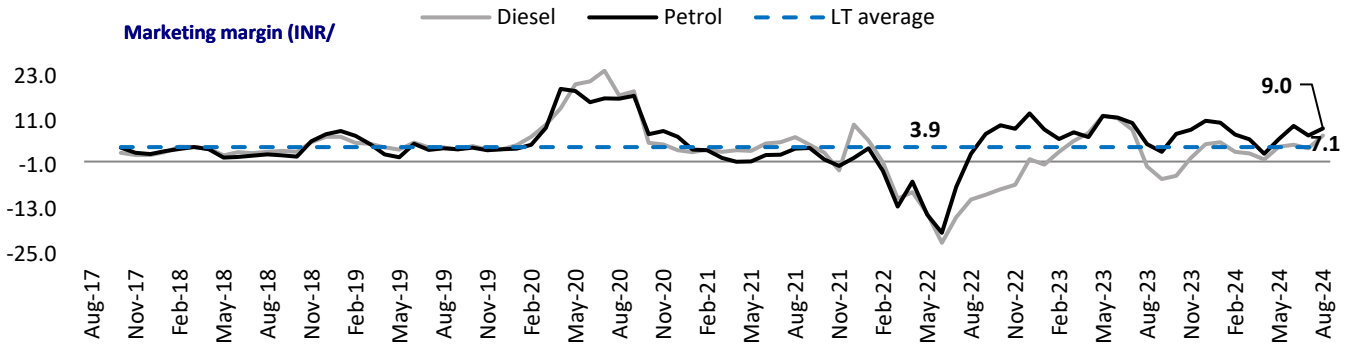
Source: Company, MOFSL  
\*BU: Bottom upgrade unit

**Exhibit 17: HRRL's RoE and RoCE to stabilize from FY28**



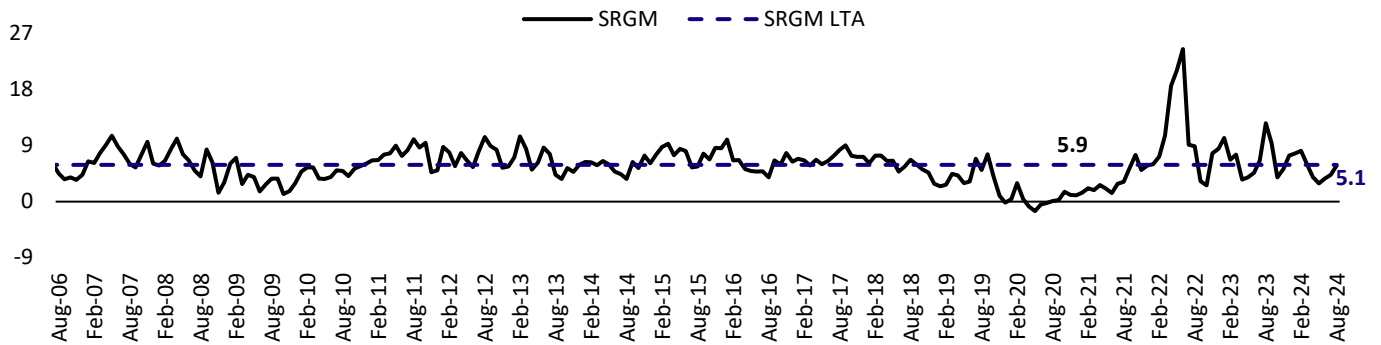
Source: MOFSL, Company

**Exhibit 18: Historical trend for petrol and diesel marketing margin**



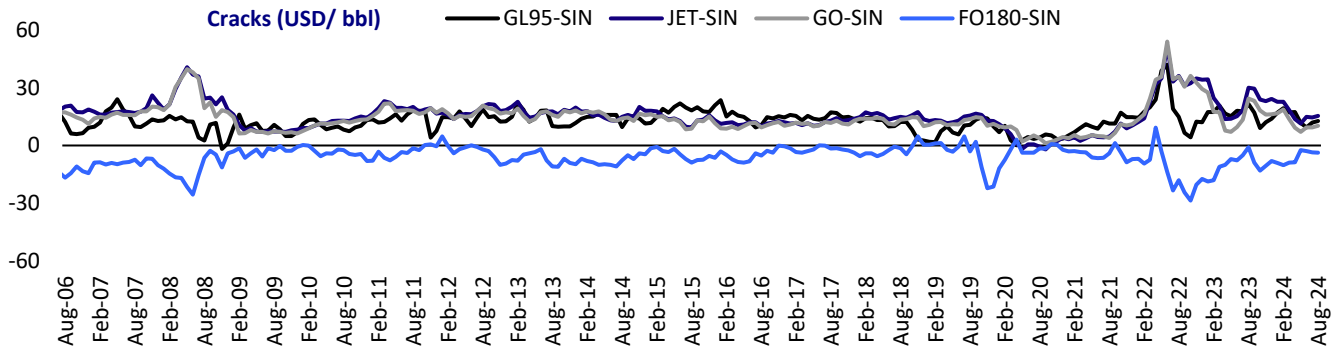
Source: Bloomberg, MOFSL

**Exhibit 19: SG GRM historical trend (USD/bbl)**



Source: Reuters, MOFSL

**Exhibit 20: Various product cracks, except Fuel Oil have declined recently (USD/bbl)**



Source: Reuters, MOFSL

## Financials and valuations

### Consolidated - Income Statement

(INR b)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
<b>Total Income from Operations</b>	<b>2,755</b>	<b>2,691</b>	<b>2,332</b>	<b>3,499</b>	<b>4,407</b>	<b>4,339</b>	<b>4,063</b>	<b>3,962</b>
Change (%)	26%	-2%	-13%	50%	26%	-2%	-6%	-2%
<b>EBITDA</b>	<b>115</b>	<b>57</b>	<b>160</b>	<b>102</b>	<b>-72</b>	<b>249</b>	<b>131</b>	<b>192</b>
Margin (%)	4.2	2.1	6.9	2.9	-1.6	5.7	3.2	4.8
Depreciation	31	34	36	40	46	56	71	77
<b>EBIT</b>	<b>84</b>	<b>23</b>	<b>124</b>	<b>62</b>	<b>-118</b>	<b>193</b>	<b>60</b>	<b>115</b>
Interest Charges (incld forex)	8	11	10	10	22	26	25	26
Other Income	15	17	26	24	15	19	23	25
<b>PBT bef. JVs/associates EO</b>	<b>91</b>	<b>28</b>	<b>141</b>	<b>77</b>	<b>-125</b>	<b>187</b>	<b>59</b>	<b>114</b>
EO Items	0	-10	0	0	0	0	0	0
JV and Associate Income	9	-5	1	15	25	18	17	20
<b>PBT after EO Exp.</b>	<b>100</b>	<b>14</b>	<b>142</b>	<b>91</b>	<b>-100</b>	<b>205</b>	<b>76</b>	<b>134</b>
Tax Rate (%)	33.4	-92.0	24.9	20.2	30.1	21.9	25.2	25.2
<b>Reported PAT</b>	<b>67</b>	<b>26</b>	<b>107</b>	<b>73</b>	<b>-70</b>	<b>160</b>	<b>57</b>	<b>100</b>
<b>Adjusted PAT</b>	<b>67</b>	<b>36</b>	<b>107</b>	<b>73</b>	<b>-70</b>	<b>160</b>	<b>57</b>	<b>100</b>
Change (%)	-7%	-46%	193%	-32%	PL	LP	-64%	76%
Margin (%)	2.4	1.4	4.6	2.1	-1.6	3.7	1.4	2.5

### Consolidated - Balance Sheet

(INR b)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Equity Share Capital	23	23	22	21	21	21	21	21
Total Reserves	281	287	359	393	301	448	490	561
<b>Net Worth</b>	<b>304</b>	<b>310</b>	<b>381</b>	<b>414</b>	<b>323</b>	<b>469</b>	<b>511</b>	<b>583</b>
Total Loans	260	394	427	450	671	628	666	706
Deferred Tax Liabilities	74	55	55	60	29	69	69	69
<b>Capital Employed</b>	<b>638</b>	<b>759</b>	<b>862</b>	<b>924</b>	<b>1,023</b>	<b>1,167</b>	<b>1,246</b>	<b>1,358</b>
<b>Net Fixed Assets</b>	<b>416</b>	<b>489</b>	<b>506</b>	<b>578</b>	<b>681</b>	<b>795</b>	<b>823</b>	<b>846</b>
Capital WIP	95	172	253	289	256	201	251	301
<b>Total Investments</b>	<b>143</b>	<b>144</b>	<b>151</b>	<b>189</b>	<b>189</b>	<b>295</b>	<b>295</b>	<b>295</b>
<b>Curr. Assets, Loans&amp;Adv.</b>	<b>395</b>	<b>337</b>	<b>397</b>	<b>453</b>	<b>447</b>	<b>489</b>	<b>472</b>	<b>504</b>
Inventory	204	193	288	355	296	342	320	312
Account Receivables	57	39	69	63	68	93	87	85
Cash and Bank Balance	2	2	6	3	7	5	15	58
Cash	2	2	5	2	5	3	13	56
Bank Balance	0	0	1	0	2	2	2	2
Loans and Advances	20	18	11	11	11	13	13	13
Others	112	84	24	21	64	36	36	36
<b>Curr. Liability &amp; Prov.</b>	<b>435</b>	<b>411</b>	<b>479</b>	<b>622</b>	<b>591</b>	<b>661</b>	<b>644</b>	<b>637</b>
Account Payables	191	115	178	265	229	273	256	249
Other Current Liabilities	223	269	272	332	334	353	353	353
Provisions	21	27	29	25	28	35	35	35
<b>Net Current Assets</b>	<b>-40</b>	<b>-74</b>	<b>-82</b>	<b>-169</b>	<b>-144</b>	<b>-172</b>	<b>-172</b>	<b>-134</b>
<b>Appl. of Funds</b>	<b>638</b>	<b>759</b>	<b>862</b>	<b>924</b>	<b>1,023</b>	<b>1,167</b>	<b>1,246</b>	<b>1,358</b>



## Financials and valuations

### Ratios

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
<b>Basic (INR)</b>								
<b>EPS</b>	<b>31.4</b>	<b>17.1</b>	<b>50.1</b>	<b>34.3</b>	<b>-32.8</b>	<b>75.2</b>	<b>26.7</b>	<b>47.0</b>
Cash EPS	45.9	32.9	67.1	53.1	-11.4	101.5	60.0	83.1
BV/Share	142.8	145.6	178.9	194.5	151.6	220.5	240.0	273.7
DPS	10.6	6.5	15.2	9.3	0.0	21.0	7.1	13.3
Payout (%)	43.0	76.0	30.3	27.2	0.0	27.9	26.7	28.4
<b>Valuation (x)</b>								
P/E	11.9	21.9	7.5	10.9	-11.4	5.0	14.0	8.0
Cash P/E	8.1	11.4	5.6	7.0	-32.9	3.7	6.2	4.5
P/BV	2.6	2.6	2.1	1.9	2.5	1.7	1.6	1.4
EV/Sales	0.4	0.4	0.5	0.4	0.3	0.3	0.4	0.4
EV/EBITDA	9.1	21.0	7.6	12.1	-20.3	5.7	11.0	7.5
Dividend Yield (%)	2.8	1.7	4.1	2.5	0.0	5.6	1.9	3.6
FCF per share	-12.7	-39.1	29.2	17.8	-60.2	65.3	6.0	26.7
<b>Return Ratios (%)</b>								
RoE	23.9	11.9	30.9	18.4	-19.0	40.4	11.6	18.3
RoCE	12.9	12.0	14.9	8.3	-7.8	15.9	5.5	8.5
RoIC	15.1	10.5	20.8	11.1	-16.2	24.4	6.7	12.4
<b>Working Capital Ratios</b>								
Fixed Asset Turnover (x)	5.2	4.2	3.4	4.4	4.6	3.9	3.3	3.0
Asset Turnover (x)	4.3	3.5	2.7	3.8	4.3	3.7	3.3	2.9
Inventory (Days)	27	26	45	37	24	29	29	29
Debtor (Days)	8	5	11	7	6	8	8	8
Creditor (Days)	25	16	28	28	19	23	23	23
<b>Leverage Ratio (x)</b>								
Current Ratio	0.9	0.8	0.8	0.7	0.8	0.7	0.7	0.8
Interest Cover Ratio	10.7	2.0	12.8	6.3	-5.4	7.6	2.5	4.4
Net Debt/Equity	0.8	1.3	1.1	1.1	2.1	1.3	1.3	1.1
<b>Consolidated - Cash Flow Statement (INR b)</b>								
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
OP/(Loss) before Tax	100	14	142	91	-100	205	76	134
Depreciation	31	34	36	40	46	56	71	77
Interest expense	8	11	10	10	22	26	25	26
Interest income and dividend	-4	-4	-4	-4	-4	-4	0	0
Direct Taxes Paid	-21	-17	-32	-15	-2	-3	-19	-34
MI and others	-4	10	-3	-20	-10	-13	0	0
(Inc)/Dec in WC	-24	7	29	55	13	-28	10	4
<b>CF from Operations</b>	<b>86</b>	<b>55</b>	<b>178</b>	<b>158</b>	<b>-35</b>	<b>239</b>	<b>163</b>	<b>207</b>
(Inc)/Dec in FA	-113	-138	-116	-120	-93	-99	-150	-150
<b>Free Cash Flow</b>	<b>-27</b>	<b>-83</b>	<b>62</b>	<b>38</b>	<b>-128</b>	<b>139</b>	<b>13</b>	<b>57</b>
Others	9	6	7	9	12	4	0	0
<b>CF from Investments</b>	<b>-111</b>	<b>-142</b>	<b>-123</b>	<b>-137</b>	<b>-114</b>	<b>-130</b>	<b>-150</b>	<b>-150</b>
Inc/(Dec) in Debt	51	115	3	39	213	-100	38	40
Interest Paid	-8	-13	-16	-17	-32	-41	-25	-26
Dividend Paid	-17	-17	-15	-32	-20	-21	-15	-28
<b>CF from Fin. Activity</b>	<b>26</b>	<b>87</b>	<b>-53</b>	<b>-23</b>	<b>151</b>	<b>-111</b>	<b>-2</b>	<b>-15</b>
<b>Inc/Dec of Cash</b>	<b>1</b>	<b>0</b>	<b>3</b>	<b>-2</b>	<b>3</b>	<b>-2</b>	<b>11</b>	<b>42</b>
Opening Balance	1	2	2	5	2	5	3	13
<b>Closing Balance</b>	<b>2</b>	<b>2</b>	<b>5</b>	<b>2</b>	<b>5</b>	<b>3</b>	<b>13</b>	<b>56</b>

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NOTES

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Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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