MOTILAL OSWAL
FINANCIAL SERVICES

24 January 2025

3QFY25 Result Update | Sector: Oil & Gas

HPCL

Estimate change	↑
TP change	↔
Rating change	↔

Bloomberg	HPCL IN
Equity Shares (m)	2128
M.Cap.(INRb)/(USDb)	750.8 / 8.7
52-Week Range (INR)	457 / 278
1, 6, 12 Rel. Per (%)	-12/5/9
12M Avg Val (INR M)	3826

Financials & Valuations (INR b)

Y/E March	FY25E	FY26E	FY27E
Sales	4,150	3,584	3,675
EBITDA	147	188	202
Adj. PAT	66	96	99
Adj. EPS (INR)	31	45	46
EPS Gr. (%)	-59	46	3
BV/Sh.(INR)	244	278	313
Ratios			
Net D:E	1.2	1.1	0.9
RoE (%)	13.3	17.3	15.7
RoCE (%)	6.5	8.2	8.2
Payout (%)	25.0	23.9	25.2
Valuations			
P/E (x)	11.4	7.8	7.6
P/BV (x)	1.4	1.3	1.1
EV/EBITDA (x)	9.5	7.3	6.8
Div. Yield (%)	2.2	3.0	3.3
FCF Yield (%)	2.5	9.3	7.5

Shareholding pattern (%)

As On	Dec-24	Sep-24	Dec-23
Promoter	54.9	54.9	54.9
DII	21.8	21.7	21.3
FII	14.4	14.1	14.3
Others	8.8	9.3	9.6

FII Includes depository receipts

CMP: INR353 TP: INR490 (+39%) BUY

Strong earning momentum to continue

- **HPCL's reported 3QFY25 financial performance was significantly above our estimates, as weaker-than-expected marketing margin performance was overpowered by robust refining margins and marketing sale volumes. We estimate up to a USD1/bbl refining GRM impact should the Russian crude proportion in the crude oil mix decline to zero (not our base case). On a sequential basis, LPG prices have remained stable, and under-recoveries should start tapering off from 1QFY26 onwards. Further, marketing margins at ~INR9/INR5 per liter for MS/HSD remain robust and above our assumption (of INR3.3 per liter).**
- **LPG under-recovery compensation, the start of the bottom upgrade unit, and the commissioning of the Rajasthan refinery are key catalysts for the stock. Further, should oil prices weaken post-4QFY25 (leading to higher marketing margins), we believe there remains a strong possibility of upward earnings revision to our and street estimates.**
- **HPCL's capex cycle is tapering off with major projects slated to commission in CY25 and ND/E improving to 1.1x in FY26 (vs. 2.1x in FY23). HPCL is currently trading at 1.3x FY26E P/B, slightly above its one-year forward LTA of 1.2x P/B. With FY26 RoE at ~17.4%, current valuations appear attractive. Hence, we reiterate our Buy rating on the stock with a SoTP-based TP of INR490.**

Lower Russian crude proportion to weigh on GRM; LPG losses to be flat QoQ

- HPCL's Russian crude utilization has been within the range of 35-40%. While all 4QFY25 cargoes have been tied up, there might be shortages in 1HFY26. If the Russian crude utilization becomes nil, the company shall encounter a USD1/bbl GRM impact, as the USD3-USD3.5 per bbl discount shall not be available elsewhere. However, management believes that the situation is transient and not a disruption. Further, RUF at Visakhapatnam Refinery (Visakh) shall help to expand their crude basket.
- In 3QFY25, LPG under-recoveries came in ~50% higher QoQ. With propane prices averaging USD635/ton in Jan'25 (similar to 3QFY25 prices), LPG under-recovery is expected to be in the similar range of ~INR10b per month. We continue to believe that the government will provide compensation to OMCs against LPG under-recovery (*media article*).

Projects approaching commissioning; ND/E to strengthen further

- While the 5mmtpa Chhara LNG Terminal was commissioned in Jan'24, RUF at Visakh, the 9mmtpa refinery, and the petchem complex (HRRL) entailing a capex ofINR729b are slated for commissioning in 4QFY25/CY25. Additionally, an equity contribution of INR140b (out of INR180b) has already been made by HPCL in HRRL. The management expects RUF commissioning to add USD2-3/bbl to Visakh's GRM, further strengthening HPCL's operating cash flow. Also, HRRL is expected to be fully functional in FY27.
- In 3Q, HPCL's debt dipped INR116b, and the resulting ND stood at INR540b. With the capex cycle tapering off and major projects being commissioned in CY25, we estimate HPCL's ND/E to improve from a high of 2.1x in FY23 to 1.1x/0.9x in FY26/FY27.

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Other key takeaways from the conference call

- INR130b-140b p.a. capex shall be incurred going forward (INR40b/ INR60b/ INR40b on Refining/Marketing/Equity contribution in JVs).
- HPCL expects the mid-cycle SG GRM to be ~USD5-6/bbl, and its GRMs to be at some premium to SG GRM + USD2-3/bbl post-RUF unit commissioning at Visakh.
- A polymer margin of USD150-USD170 per ton shall enable HMEL to break even, while the current margin is USD70-USD80 per ton.
- Going forward, INR5-6b/INR6b interest/depreciation increase might be seen.

EBITDA/PAT beat led by robust GRM and strong marketing volumes

- HPCL's EBITDA stood at INR59.7b in 3QFY25 (30% beat, up 181% YoY/116% QoQ).
- The beat was led by a higher-than-estimated GRM, which was 10% above our estimate at USD6/bbl (-57% YoY).
- LPG under-recovery stood at INR31b, which we believe could be reversed in due course as LPG remains a controlled product.
- Refining throughput was in line with our estimate at 6.5mmt (+21% YoY).
- Marketing volumes stood at 12.9mmt (est. 12.2mmt), up 8% YoY.
- Marketing margin (incl. inv.) stood at ~INR5.7/lit (est. INR6.1/lit), up 310% YoY.
- PAT came in 29% above our estimate at INR30.2b (5.7x YoY, 4.8x QoQ). Depreciation & other income were below our estimates, while finance costs were above our estimate. In 3Q, forex losses stood at INR4.8b vs. INR0.4b in 1HFY25.
- **In 9MFY25,** net sales grew 2% to INR3.2t, while EBITDA/PAT declined 47%/66% to INR108.2b/40.1b. **In 4QFY25**, we estimate a 31%/51% YoY decline in HPCL's EBITDA/PAT.
- **As of Dec'24,** HPCL had a cumulative negative net buffer of INR76b due to the under-recovery on LPG cylinders (INR45b as of Sep'24).

Highlights of the 3QFY25 performance:

Operational performance:

- HPCL recorded its highest-ever crude throughput of 18.5mmt in 9MFY25 (6.5mmt in 3Q).
- The company reported the highest-ever quarterly sales volume of 12.9mmt and gained a market share of 0.4% during the quarter.
- Sales volumes of motor fuels/LPG/industrial products rose 6.3%/4.9%/ 25.5% YoY. Aviation/lubricants posted volume growth of 26%/11.5% YoY.
- In 3QFY25, HPCL recorded its highest-ever pipeline throughput of 6.9mmt.
- HPCL expanded its retail network with 452 new outlets in 3Q, taking the total to 22,953. Additionally, six new LPG distributorships were commissioned, increasing the total count to 6,370. It commissioned 50 retail outlets in CNG and 1,062 EV charging facilities, taking the total number to 1,851 and 5,104, respectively.
- HPCL initiated CNG sales in Darjeeling, Jalpaiguri, and Uttar Dinajpur, and commercial PNG sales in Shahjahanpur Badaun, expanding its presence in eastern India.
- The company achieved the highest-ever Ethanol blending of 16.2% during the quarter.

Update on the ongoing projects:

- The company's 3Q capex stood at INR28.9b (INR94.8b in 9MFY25).

- HPCL successfully commissioned its 5mmtpa LNG regasification terminal.
- HPCL has started its 'Lube Modernization' project at the Mumbai Refinery for an estimated cost of INR46.8bm with a Mar'28 completion target. The project will improve LOBS and Bitumen capacity and will improve the refinery's distillate yield by 4%.
- Mumbai Refinery has commissioned VGO hydro-treating in its DHT Unit, becoming the first in India to process VGO and diesel simultaneously in parallel reactors within a single unit and is expected to boost motor spirit (MS) yields by ~100tmt p.a.

HRRL:

- The construction of the project is in full swing, and the refinery and petrochemical complex is expected to be commissioned in CY25.
- As of Dec'24, total commitments stood at INR718.1b and capex was INR528.7b.

Other highlights

- The 3.55mmtpa residue upgradation facility at its Visakh Refinery is completed, with the commissioning expected in 4QFY25.
- The company signed MoUs with the Rajasthan and Bihar governments to develop solar and wind hybrid projects in Rajasthan and invest INR5b in seven CBG plants in Bihar.

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 FY26/27, while the current MS and HSD marketing margins are INR4.7/lit and INR9.6/lit, respectively. We view the following as key catalysts for the stock: 1) the de-merger and potential listing of the lubricant business, 2) the commissioning of its bottom upgrade unit in 4QFY25, 3) the start of its Rajasthan refinery in CY25, and 4) LPG under-recovery compensation.
- HPCL currently trades at 1.3x FY26E P/B, which we believe offers a reasonable margin of safety as we estimate FY26E RoE of 17.3%.
- Our SoTP-based TP includes:
  - The standalone refining and marketing business at 6.5x Dec'26E EBITDA.
  - INR38/sh as potential value unlocking from the 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's stake is valued at MOFSL's TP.
  - All these lead to a revised TP of INR490. **Reiterate BUY.**

Standalone - Quarterly Earnings Model (INR b)

Y/E March	FY24				FY25E				FY24	FY25E	FY25	Var
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE			3QE	(%)
Net Sales	**1,119.6**	**957.0**	**1,113.1**	**1,145.6**	**1,138.0**	**999.3**	**1,105.1**	**904.4**	**4,335.2**	**4,146.7**	**931.1**	**19%**
YoY Change (%)	-2.2	-11.7	1.6	6.1	1.6	4.4	-0.7	-21.1	-1.6	-4.3	-16.3	
EBITDA	**95.2**	**85.8**	**21.3**	**48.7**	**20.8**	**27.7**	**64.5**	**33.6**	**251.0**	**146.6**	**49.5**	**30%**
Margins (%)	8.5	9.0	1.9	4.2	1.8	2.8	5.8	3.7	5.8	3.5	5.3	
Depreciation	13.6	12.4	13.4	16.1	14.8	15.2	15.1	15.5	55.5	60.6	16.8	
Forex loss	-1.3	3.6	-0.4	0.6	-0.3	0.4	4.8	0.0	2.6	5.0	0.0	
Interest	5.9	5.8	6.1	7.3	7.3	9.4	9.3	8.4	25.2	34.4	7.7	
Other Income	6.3	3.4	5.6	8.5	5.7	5.7	4.8	9.1	23.8	25.3	6.3	
PBT	**83.3**	**67.4**	**7.7**	**33.1**	**4.7**	**8.4**	**40.1**	**18.7**	**191.5**	**71.9**	**31.3**	**28%**
Rate (%)	25.5	24.1	31.1	14.2	24.5	24.4	24.6	25.2	23.3	24.7	25.2	
Reported PAT	**62.0**	**51.2**	**5.3**	**28.4**	**3.6**	**6.3**	**30.2**	**14.0**	**146.9**	**54.1**	**23.4**	**37%**
YoY Change (%)	LP	LP	206.8	-11.8	-94.3	-87.7	471.4	-50.7	LP	-63.2	343.1	
Key Assumptions												
Refining throughput (mmt)	5.4	5.8	5.3	5.8	5.8	6.3	6.5	6.5	22.3	25.0	6.3	2%
Reported GRM (USD/bbl)	7.4	8.3	14.0	6.9	5.0	3.1	6.0	5.4	9.2	4.9	5.5	10%
Marketing sales volume incl exports (mmt)	11.9	10.7	11.9	12.3	12.6	11.6	12.9	12.5	46.8	49.6	12.2	6%

Key assumptions for HPCL

Particulars	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Exchange Rate (INR/USD)	70.0	70.9	74.3	74.5	80.4	82.8	84.2	86.0	86.2
Brent Crude (USD/bbl)	70.1	61.2	44.4	80.5	96.1	83.0	78.4	70.0	70.0
Market Sales (MMT)	38.7	39.6	36.6	39.1	43.5	46.8	49.6	51.6	53.7
YoY (%)	5	2	(8)	7	11	8	6	4	4
GRM (USD/bbl)	5.0	1.0	3.9	7.2	12.1	9.1	4.9	6.1	6.3
Singapore GRM (USD/bbl)	4.9	3.2	0.5	5.0	10.7	6.6	4.4	5.5	5.5
Prem/(disc) (USD/bbl)	0	(2)	3	2	1	2	0.5	0.6	0.8
Total Refinery throughput (MMT)	18.4	17.2	16.4	14.0	19.1	22.3	25.0	25.9	25.9
YoY (%)	1%	-7%	-4%	-15%	37%	17%	12%	4%	0%
Refining capacity utilization (%)	117%	109%	104%	88%	85%	91%	102%	106%	106%
Blended marketing margin incld inventory (INR/lit)	4.3	4.0	6.3	4.3	(0.8)	5.5	4.2	4.5	4.5
Consolidated EPS	**31.4**	**17.1**	**50.1**	**34.3**	**-32.8**	**75.2**	**31.0**	**45.1**	**46.4**

SoTP valuation

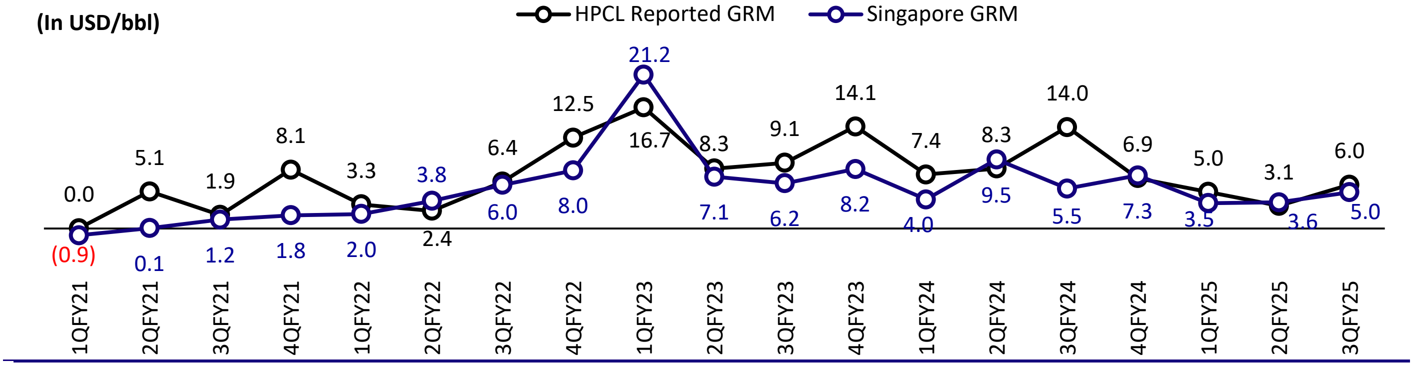
Particulars	Earning metric		Val metric	Multiple	Amount (INR m)
HPCL standalone	Dec'26E EBITDA	197,188	EV/EBITDA	6.5	1,281,723
(-) Standalone Dec'26E Net Debt					580,558
Standalone Market Cap					**701,164**
+ Lubricant business- value unlocking	FY24 EBITDA	10,000	EV/EBITDA	8.0	80,000
+ MRPL	MOFSL TP	35,650			35,650
+ 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	140,000
SoTP					**1,043,526**
(/) shares outstanding					**2,128**
TP (INR/share)					**490**

Highlights from the management commentary

- **Lubricant business listing:**
  - The company is pursuing carve-out approval from the Government as a top priority.
  - It will take 9m post approval for listing of the business.
- **HRRL:**
  - Mechanical completion by Sep'25, commissioning by Dec'24, and complete operations will be seen in FY27.
  - The debt shall not be consolidated since HRRL is under JV. Debt as of Dec'24 amounts to INR340b.
  - Equity contribution: INR140b out of INR180b has already been made.
- **Russian crude:**
  - Russian Crude utilization stands at 35%-40%. Also, all cargoes for 4Q are been tied up.
  - The company does not see the recent developments as a disruption. Additionally, RUF at Visakh shall help expand its crude basket.
- **HPCL LNG:**
  - Long-term contract tie-ups shall be concluded in the near term. Till then, the company shall buy Spot LNG.
  - Captive LNG requirement shall be 1.5mmt-1.7mmt p.a.
  - Initially, there will be losses. The break-even level shall be achieved in 1-2 years.
- **The decline in debt by INR116b:**
  - Better operational performance led to debt reduction.
  - INR20b oil bonds which matured in 3Q were used for debt repayment.
  - As of Dec'24, HPCL's ND stands at INR540b, out of which INR440b is long-term debt.
- **Capex:**
  - Run-rate: INR130b-140b capex shall be incurred (INR40b/INR60b/INR40b on Refining/Marketing/Equity contribution in JVs).
- **Inventory losses:**
  - In 3Q, INR3.5b/4.6b inventory loss pertains to refining/marketing.
  - In 9mFY25, INR11b/INR14.5b inventory loss pertains to refining/marketing.
  - W.r.t. Crude/finished goods, 15/30 days inventories are maintained.
- **GRM outlook:**
  - The average GRM for 3QFY25 was USD6/bbl. HPCL's management expects the mid-cycle SG GRM to be ~USD5-6/bbl, and HPCL's GRMs to be at some premium to SG GRM + USD2-3/bbl post-RUF unit commissioning at Visakh.
- **HMEL:**
  - During 3Q, refinery GRM was at USD9/bbl.
  - 3QFY25: Net Loss: INR7.1 (vs Net Loss of INR3b in 1HFY25) primarily due to subdued polymer prices, 3Q EBITDA remains positive.
  - A margin of USD150-USD170 per ton shall enable HMEL to break even, while current margins are USD70-USD80 per ton.
  - As of Dec'24, HMEL's ND stands at INR330b.
- **LPG under-recovery:**
  - The company hopes that the government might consider LPG loss compensation in the upcoming budget.
- **Interest and depreciation outlook:**
  - INR5-6b/INR6b interest and depreciation increase might be seen going forward.
- **Visakh RUF:**
  - 93% conversion in distillates. Fuel Oil shall be fully eliminated and outputs shall be Diesel, Naphtha, and Gasoil.

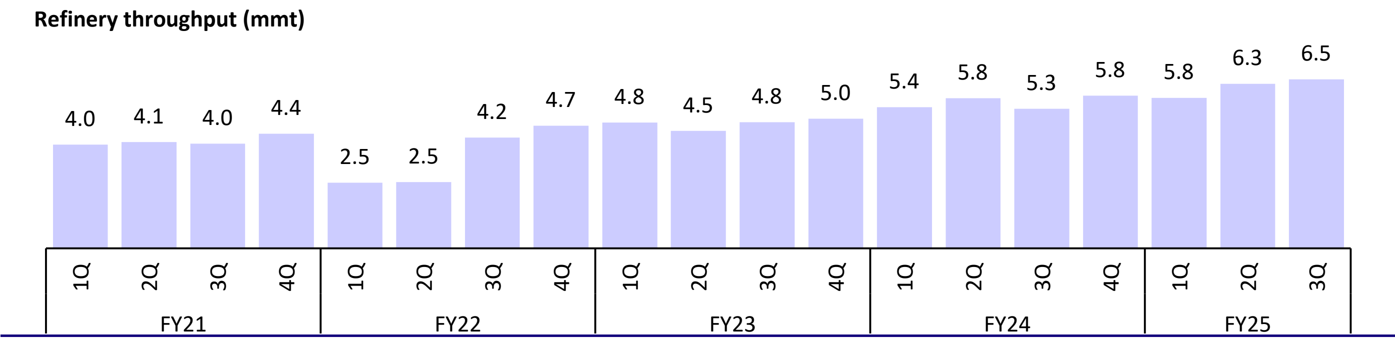
Story in charts – 3QFY25

Exhibit 1: Reported GRM stood at USD6/bbl, down 57% YoY



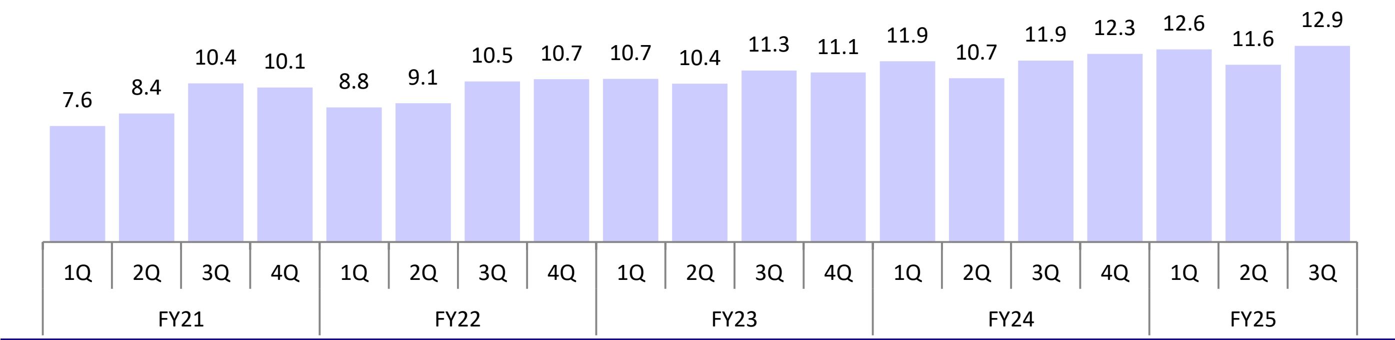
Source: Company, MOFSL

Exhibit 2: Throughput was 6.5mmt, up ~21% YoY



Source: Company, MOFSL

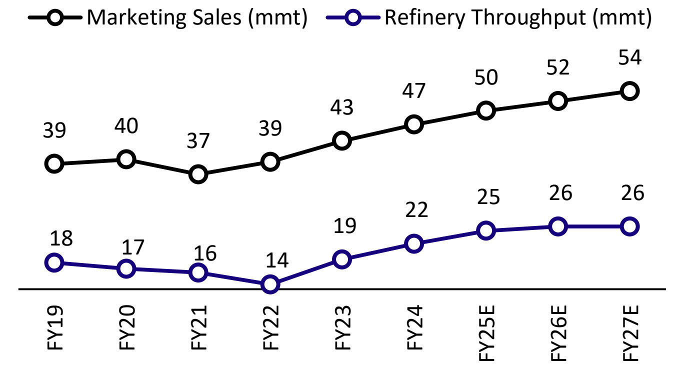
Exhibit 3: Marketing volumes grew ~8% YoY to 12.9mmt



Source: Company, MOFSL

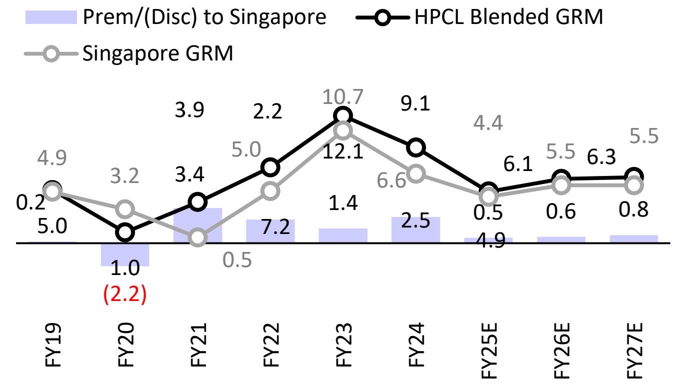
Story in charts

Exhibit 4: Refining throughput/marketing sales of HPCL



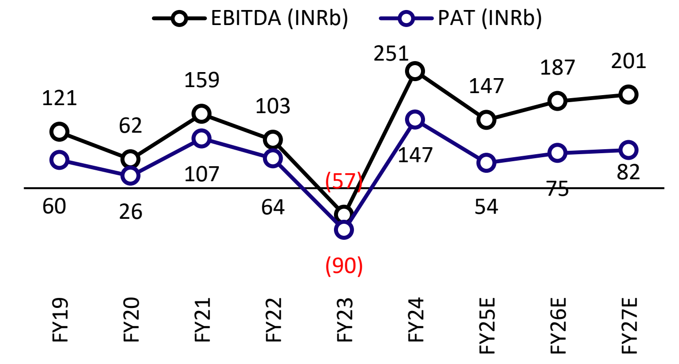
Source: Company, MOFSL

Exhibit 5: GRM trend of HPCL



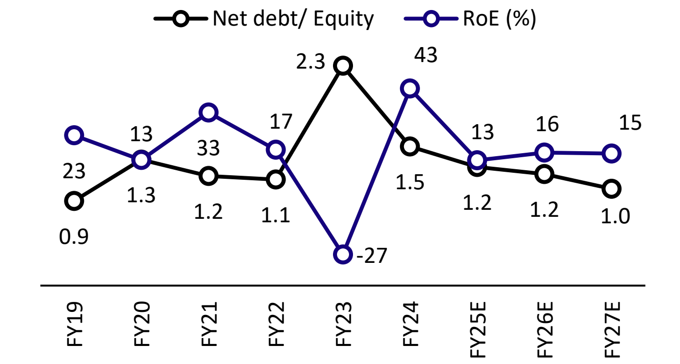
Source: Company, MOFSL

Exhibit 6: EBITDA vs. PAT (standalone)



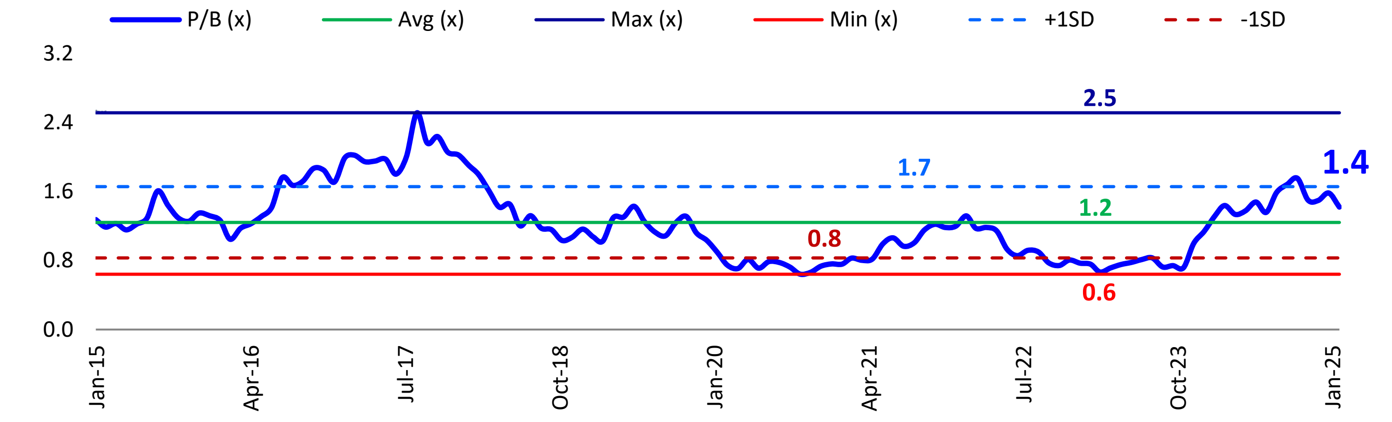
Source: Company, MOFSL

Exhibit 7: Standalone ratios



Source: Company, MOFSL

Exhibit 8: HPCL – One-year forward P/B trades at 1.4x (long-term P/B average at 1.2x)



Source: Company, MOFSL

Financials and valuations

Consolidated - Income Statement					(INR b)
Y/E March	**FY23**	**FY24**	**FY25E**	**FY26E**	**FY27E**
Total Income from Operations	**4,407**	**4,339**	**4,150**	**3,584**	**3,675**
Change (%)	*26%*	*-2%*	*-4%*	*-14%*	*3%*
EBITDA	**-72**	**249**	**147**	**188**	**202**
Margin (%)	-1.6	5.7	3.6	5.2	5.5
Depreciation	46	56	71	77	83
EBIT	**-118**	**193**	**77**	**111**	**119**
Interest Charges (incld forex)	22	26	25	26	28
Other Income	15	19	23	26	30
PBT bef. JVs/associates EO	**-125**	**187**	**75**	**110**	**121**
EO Items	0	0	0	0	0
JV and Associate Income	25	18	13	18	11
PBT after EO Exp.	**-100**	**205**	**88**	**128**	**132**
Tax Rate (%)	30.1	21.9	25.2	25.2	25.2
Reported PAT	**-70**	**160**	**66**	**96**	**99**
Adjusted PAT	**-70**	**160**	**66**	**96**	**99**
Change (%)	*PL*	*LP*	*-59%*	*46%*	*3%*
Margin (%)	-1.6	3.7	1.6	2.7	2.7

Consolidated - Balance Sheet					(INR b)
Y/E March	**FY23**	**FY24**	**FY25E**	**FY26E**	**FY27E**
Equity Share Capital	21	21	21	21	21
Total Reserves	301	448	497	570	644
Net Worth	**323**	**469**	**519**	**592**	**666**
Total Loans	671	628	666	706	748
Deferred Tax Liabilities	29	69	69	69	69
Capital Employed	**1,023**	**1,167**	**1,254**	**1,367**	**1,483**
Net Fixed Assets	**681**	**795**	**823**	**846**	**863**
Capital WIP	256	201	251	301	351
Total Investments	**189**	**295**	**295**	**295**	**295**
Curr. Assets, Loans&Adv.	**447**	**489**	**485**	**489**	**544**
Inventory	296	342	327	283	290
Account Receivables	68	93	89	77	79
Cash and Bank Balance	7	5	20	81	127
Cash	5	3	18	79	125
Bank Balance	2	2	2	2	2
Loans and Advances	11	13	13	13	13
Others	64	36	36	36	36
Curr. Liability & Prov.	**591**	**661**	**649**	**614**	**619**
Account Payables	229	273	261	226	231
Other Current Liabilities	334	353	353	353	353
Provisions	28	35	35	35	35
Net Current Assets	**-144**	**-172**	**-164**	**-125**	**-75**
Appl. of Funds	**1,023**	**1,167**	**1,254**	**1,367**	**1,483**

Financials and valuations

Ratios					
Y/E March	**FY23**	**FY24**	**FY25E**	**FY26E**	**FY27E**
Basic (INR)					
EPS	**-32.8**	**75.2**	**31.0**	**45.1**	**46.4**
Cash EPS	-11.4	101.5	64.3	81.2	85.4
BV/Share	151.6	220.5	243.7	278.0	312.7
DPS	0.0	21.0	7.7	10.8	11.7
Payout (%)	0.0	27.9	25.0	23.9	25.2
Valuation (x)					
P/E	-10.8	4.7	11.4	7.8	7.6
Cash P/E	-31.0	3.5	5.5	4.3	4.1
P/BV	2.3	1.6	1.4	1.3	1.1
EV/Sales	0.3	0.3	0.3	0.4	0.4
EV/EBITDA	-19.6	5.5	9.5	7.3	6.8
Dividend Yield (%)	0.0	5.9	2.2	3.0	3.3
FCF per share	-60.2	65.3	8.7	32.9	26.3
Return Ratios (%)					
RoE	-19.0	40.4	13.3	17.3	15.7
RoCE	-7.8	15.9	6.5	8.2	8.2
RoIC	-16.2	24.4	8.5	12.0	12.7
Working Capital Ratios					
Fixed Asset Turnover (x)	4.6	3.9	3.4	2.7	2.6
Asset Turnover (x)	4.3	3.7	3.3	2.6	2.5
Inventory (Days)	24	29	29	29	29
Debtor (Days)	6	8	8	8	8
Creditor (Days)	19	23	23	23	23
Leverage Ratio (x)					
Current Ratio	0.8	0.7	0.7	0.8	0.9
Interest Cover Ratio	-5.4	7.6	3.1	4.2	4.3
Net Debt/Equity	2.1	1.3	1.2	1.1	0.9

Consolidated - Cash Flow Statement					(INR b)
Y/E March	**FY23**	**FY24**	**FY25E**	**FY26E**	**FY27E**
OP/(Loss) before Tax	-100	205	88	128	132
Depreciation	46	56	71	77	83
Interest expense	22	26	25	26	28
Interest income and dividend	-4	-4	0	0	0
Direct Taxes Paid	-2	-3	-22	-32	-33
MI and others	-10	-13	0	0	0
(Inc)/Dec in WC	13	-28	7	21	-3
CF from Operations	**-35**	**239**	**168**	**220**	**206**
(Inc)/Dec in FA	-93	-99	-150	-150	-150
Free Cash Flow	**-128**	**139**	**18**	**70**	**56**
Others	12	4	0	0	0
CF from Investments	**-114**	**-130**	**-150**	**-150**	**-150**
Inc/(Dec) in Debt	213	-100	38	40	42
Interest Paid	-32	-41	-25	-26	-28
Dividend Paid	-20	-21	-16	-23	-25
CF from Fin. Activity	**151**	**-111**	**-3**	**-9**	**-10**
Inc/Dec of Cash	**3**	**-2**	**15**	**61**	**46**
Opening Balance	2	5	3	18	79
Closing Balance	**5**	**3**	**18**	**79**	**125**

NOTES

Explanation of Investment Rating	
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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