

India

Overweight (no change)

Highlighted Companies

Bharat Petroleum

REDUCE, TP Rs410, Rs449 close

We reiterate our Reduce rating and TP of Rs410. This is based on a valuation of Rs389 for its core business (1.6x Mar23F P/BV, 18% ROE in FY23F and Rs21 value for E&P. Strategic sale is delayed to at least 2HFY22F, in our view.

Hindustan Petroleum

ADD, TP Rs285, Rs262 close

We reiterate our Add rating with a TP of Rs285 which is based on 1x Mar23F P/BV, 15% ROE in FY23F. Large off-balance sheet debt will likely keep valuations under check.

Indian Oil Corp


ADD, TP Rs150, Rs103 close

We reiterate our Add rating with a TP of Rs150 which is based on 1.1x Mar23F P/BV, 15% ROE in FY23F. Over 7% dividend yield is the key rating catalyst.

Summary Valuation Metrics

P/E (x)	Mar21-F	Mar22-F	Mar23-F
Bharat Petroleum	5.41	11.99	10.46
Hindustan Petroleum	4.29	6.71	5.94
Indian Oil Corp	4.63	5.91	5.15
P/BV (x)	Mar21-F	Mar22-F	Mar23-F
Bharat Petroleum	1.82	1.94	1.78
Hindustan Petroleum	1.04	0.97	0.88
Indian Oil Corp	0.87	0.81	0.75
Dividend Yield	Mar21-F	Mar22-F	Mar23-F
Bharat Petroleum	6.13%	4.41%	4.41%
Hindustan Petroleum	7.92%	5.46%	5.34%
Indian Oil Corp	10.7%	7.78%	9.73%

Analyst(s)



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Oil & Gas Refinery

Full recovery still awaited

- Large inventory gains will compensate for tepid GRM recovery and poor marketing margins in 4QFY21F, in our view.
- We expect recovery in Indian oil demand and GRMs in FY22F/23F, assuming the current negative impact due to Covid to be short-lived.
- We reiterate sector Overweight and retain our Add ratings on IOC (TP Rs150) and HPCL (TP Rs285). Retain Reduce on divestment play BPCL (TP Rs410).

Reasonable recovery in GRMs key driver for the sector

There was a tepid recovery in gross refining margins (GRMs) in 4QFY21 with Singapore GRM at US\$1.8/bbl vs. US\$1.2/bbl in 3Q (resulting in US\$0.5/bb for FY21). We expect this GRM to average at US\$3/bbl in FY22F and US\$4/bbl in FY23F based on expectations of recovery in global oil demand. The recent Covid resurgence is a headwind for GRMs and our estimates assume the resultant negative impact to be short-lived.

Auto fuel MMs should come back to earlier levels post elections

Post the state election results on 1 May 2021, the oil marketing companies have started raising auto fuel prices. Despite the headwind of higher global oil prices, we expect them to restore marketing margins (MMs) to their earlier elevated levels. OMCs are likely to continue maintaining their strategy of focusing on integrated margins which involves looking at profitability of auto fuels by combining their refining and marketing margins. The big positive surprise in FY21 is that even retail LPG prices have been raised and the OMCs are no longer bearing any subsidy.

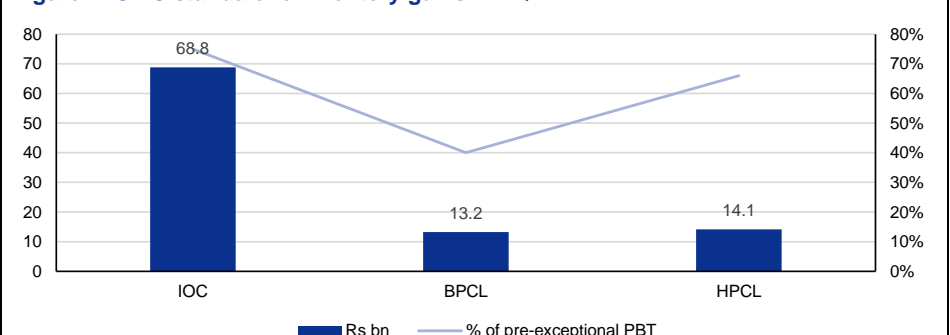
Recovery in Indian oil demand expected over FY22F/23F

Indian oil demand dropped by 9.1% yoy in FY21 with diesel and gasoline declining yoy by 12% and 6.8% respectively. Broadly, gasoline volumes have shown some positive surprise while diesel has disappointed and jet fuel remains well below pre-Covid levels. The resurgence of Covid resulted in volumes for diesel and gasoline in Apr 2021 declining (relative to Apr 2019 pre-Covid level) by 3.7% and 3.1% respectively. We expect this decline to be relatively short-lived. We expect combined auto fuels volume to rise from 195mt in FY21 to 223mt in FY23F (just 5% above pre-Covid demand levels of FY19).

Retain Add on IOC/HPCL, Reduce on BPCL

While OMC stock prices have recovered from trough levels in 2020, we find IOC and HPCL valuations still attractive given our assumptions of recovery in oil demand and GRMs. IOC's dividend yield is particularly compelling, in our view. We recently downgraded BPCL as we believe its valuation is expensive if the strategic sale upside is ignored. Its move to raise its stake in BORL to 100% and sell its entire stake in NRL will bring down cash generation and significantly raise its consolidated net debt equity (BORL debt was not consolidated earlier). Given the recent Covid outbreak, we expect the strategic sale process to be delayed to at least 2HFY22F.

Figure 1: OMC standalone inventory gains in 4QFY21F



SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Full recovery still awaited

GRM improvement is key earnings driver

Singapore GRMs had weakened considerably even before the impact of Covid became evident, and FY21 was a washout year for refining with GRM averaging just US\$0.54/bbl. To put this in perspective, GRMs were in the US\$5-6/bbl range over 2014-2018. So, the decline in profitability has been sharp.

With some rebound in economic activity, GRMs in 2HFY21 showed some recovery but the improvement was still very gradual and 4QFY21 Singapore GRM of US\$1.8/bbl is still very low, in our view. The recovery in margins in recent months is still tepid. On a product-wise basis, margins have improved materially only for gasoline based on the relative healthy demand recovery in the US (which consumes around 40% of global demand). Global jet fuel volumes are still very low as air travel is far from normal. Hence jet fuel margins continue to be low and they put a cap on diesel margins since refiners have reasonable flexibility to shift production between these two products.

For complex refiners, the drop in profitability has been more severe due to reduction in crude differentials as well. The spread between Arab Light and Arab Heavy touched unprecedented lows of negative US\$0.17/bbl in 3QFY21. But even current levels of around US\$1/bbl compare poorly to levels of US\$3-4/bbl prevalent during 2014-18.

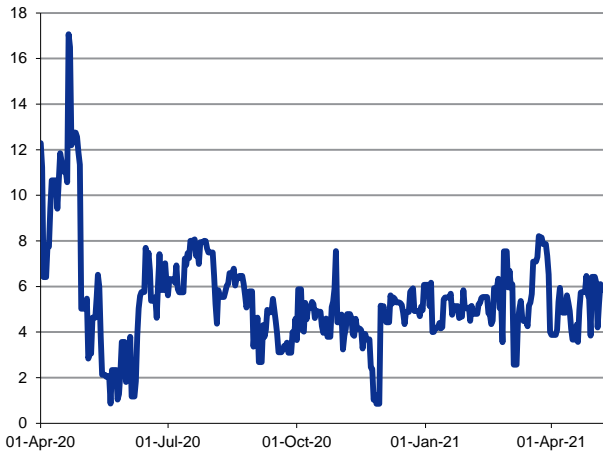
We expect the impact of Covid to be relatively short-lived and hence assume that Singapore GRMs will recover to US\$3/bbl in FY22F and US\$4/bbl in FY23F. This recovery is contingent on some normalisation of global oil demand as countries slowly emerge from the lockdowns. But our assumption of steady GRMs of US\$4/bbl are well below the US\$5-6/bbl achieved in the best years of CY14-18.

As per the International Energy Agency (IEA), global oil demand dropped from 100m b/d in CY19 to 91m b/d in CY20. It expects demand in CY21 to grow by 5.4m b/d in CY21 to touch 96.4m b/d. This implies that demand may not get back to even CY19 levels by CY22. Meanwhile new refining capacity is still coming on stream (based on projects sanctioned five years back), more than compensating for the refinery closures that have taken place. Hence, we see the industry as remaining oversupplied in the medium term with resultant impact on GRMs.

GRMs of the OMCs have fully reflected the weakening regional margin environment. Core GRMs (excluding inventory impact) have ranged in the US\$1-2/bbl in FY21, though reported GRMs have been inflated by large inventory gains. In 4QFY21F as well, we expect reported GRMs to be inflated by US\$2-5/bbl on account of inventory gains.

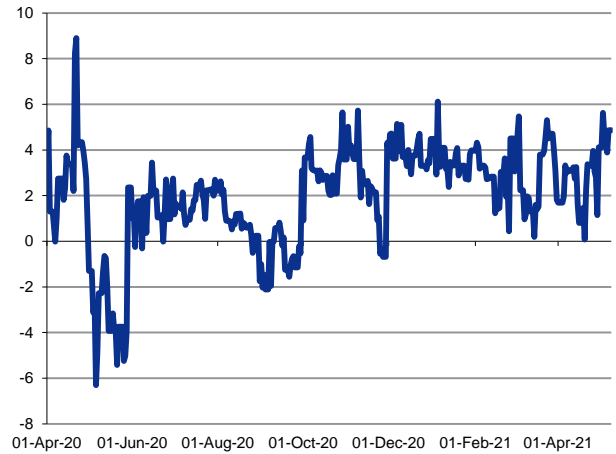
We note that there is a sharp uplift in GRMs of the refineries located in the North-East, as they enjoy a tax benefit linked to the level of excise duties (which the government raised by near 100% on auto fuels earlier this year). Consequently, for separate companies like Numaligarh Refinery (NRL, earlier subsidiary of BPCL, but now of Oil India), we expect the GRM benefit due to the tax benefit to rise from US\$16/bbl in FY20 to around US\$32/bbl over FY21-23F. This benefit will also be enjoyed by three refineries on IOC's own balance sheet and will be reported as part of IOC's overall GRM.

Figure 2: Diesel-Dubai crack spread (US\$/bbl)



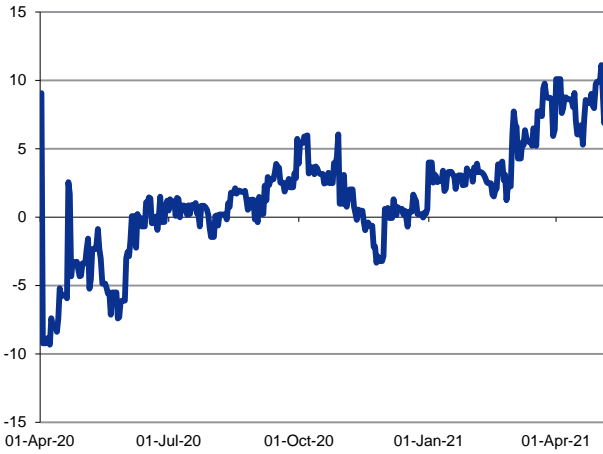
SOURCES: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 3: Jet fuel-Dubai crack spread (US\$/bbl)



SOURCES: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 4: Gasoline-Dubai crack spread (US\$/bbl)



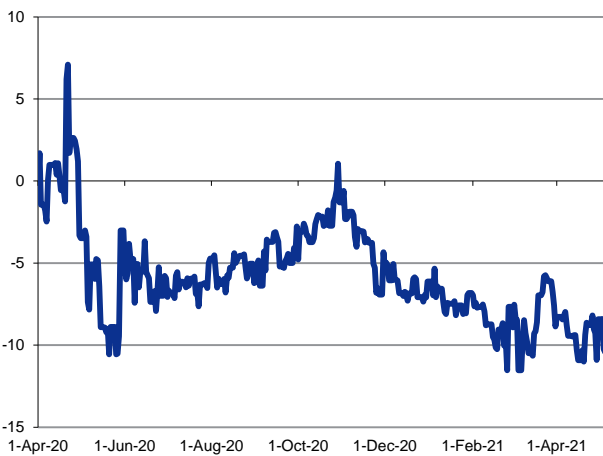
SOURCES: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 5: Naphtha-Dubai crack spread (US\$/bbl)



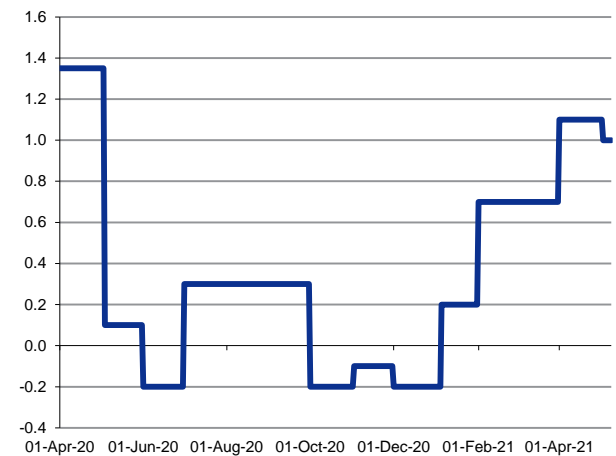
SOURCES: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 6: Fuel oil-Dubai crack spread (US\$/bbl)



SOURCES: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 7: Arab Light-Arab Heavy crude spread (US\$/bbl)



SOURCES: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 8: Reported GRMs vs Singapore GRMs and product cracks (US\$/bbl)

	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21
Singapore Cracking GRM	1.60	1.09	-0.94	0.08	1.22	1.80
<u>Spreads over Dubai crude</u>						
Diesel	14.89	13.84	6.32	5.62	4.48	5.42
Jet Fuel	12.69	11.17	0.65	0.67	3.12	3.17
Naphtha	-5.29	-2.88	-3.80	0.54	-0.20	1.14
Furnace Oil	-21.98	-10.46	-3.97	-5.42	-4.19	-8.07
Gasoline	7.18	6.90	-3.18	1.23	1.25	4.17
LPG	-26.09	-6.02	-1.87	-12.43	-9.90	-13.46
<u>Crude differentials</u>						
Arab Light - Heavy Differential	2.31	3.13	0.46	0.30	-0.17	0.52
Brent-Dubai differential	1.19	-0.20	-0.06	0.20	0.59	1.22
Brent-Maya differential	9.53	9.29	7.05	3.56	3.81	4.26
<u>Reported GRMs</u>						
IOC	4.09	-9.64	-1.98	8.62	2.19	
HPCL	1.79	-1.23	0.04	5.11	1.87	
BPCL	3.23	0.75	0.39	5.80	2.47	
<u>Inventory impact</u>						
IOC	2.11	-17.90	-6.40	9.66	0.96	
HPCL	0.34	-10.62	0.90	2.34	2.82	
BPCL	1.03	-6.69	-1.54	4.26	1.24	
<u>GRMs ex-inventory</u>						
IOC	1.98	8.26	4.42	-1.04	1.23	
HPCL	1.45	9.39	-0.86	2.77	-0.95	
BPCL	2.20	7.44	1.93	1.54	1.23	
IOC CP GRM	2.15	2.15	4.27	-0.97	1.27	

SOURCES: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Auto fuel MMs are on their way up

Based on the pricing data for the last few quarters, it has been clear that the OMCs have been trying to target some level of integrated margins (combined refining and marketing) for the auto fuels. Since price changes are always being made simultaneously for both diesel and gasoline, it is clear that profitability is being considered for the auto fuel basket combined.

Post the official deregulation of auto fuels in Oct 2014, refining margins remained strong in FY16-18, and the OMCs largely maintained their auto fuel MMs at a steady level of around Rs1.55/l for diesel and Rs2.5/l for gasoline on an annual basis. However, in the past 6-8 quarters or so, when refining margins have been under pressure, the OMCs have resorted to sharply raising MMs. We now believe that MMs will remain at higher levels as long as GRMs remain depressed.

While the OMCs can set prices and MMs at will given their oligopolistic status, there is an occasional hiccup due to some election or the other. It is now apparent that the OMCs largely froze retail auto fuel prices in Mar-Apr 2021 due to state elections in Apr 2021. This resulted in a significant drop in MMs in 4QFY21F, compared to the average in prior three quarters. With state elections results declared on 1 May 2021, the OMCs immediately started raising retail prices and MMs.

Despite the headwind of rising global oil prices (which would force the OMCs to keep increasing domestic prices to record levels), we believe the OMCs will achieve their targeted integrated margins. We view the drop in MMs due to state elections as a hiccup and maintain our MMs for FY22F/23F.

Figure 9: Auto fuel marketing margins (Rs/l)

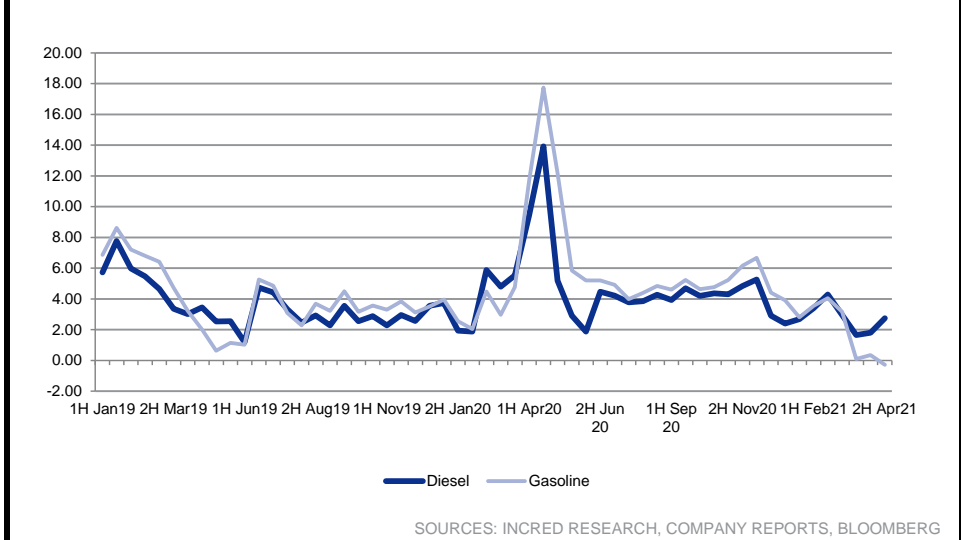


Figure 10: Diesel retail price in Delhi (Rs/l)

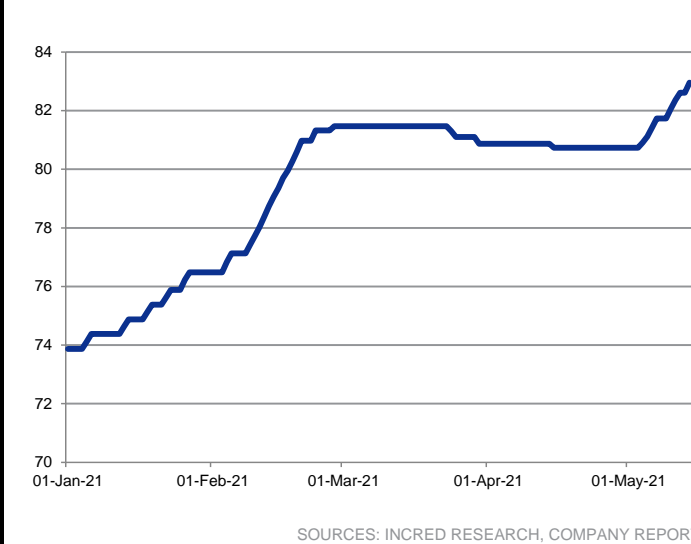
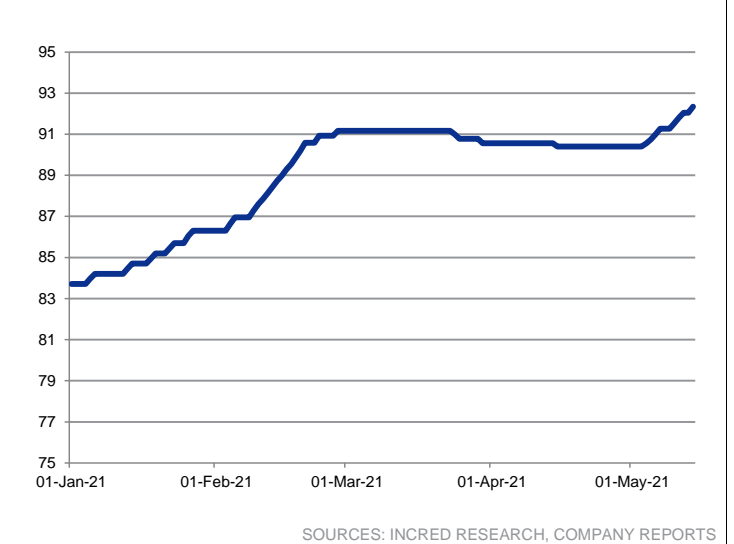


Figure 11: Gasoline retail price in Delhi (Rs/l)



Indian oil demand expected to recover in FY22F/23F

Indian oil demand dropped by 9.1% yoy in FY21 with diesel and gasoline declining yoy by 12% and 6.8% respectively. Broadly, gasoline volumes have shown some positive surprise while diesel has disappointed and jet fuel remains well below pre-Covid levels. The resurgence of Covid has resulted in volumes for diesel and gasoline in Apr 2021 declining (relative to Apr 2019 pre-Covid level) by 3.7% and 3.1% respectively. We expect this decline to be relatively short-lived. We expect combined auto fuels volume to rise from 195mt in FY21 to 223mt in FY23F (just 5% above pre-Covid demand levels of FY19).

Recovery in demand is critical as it impacts not only marketing volumes but also refining volumes. Lower oil demand builds up inventory and forces the OMCs to cut their refining throughputs as well (which has been the case in recent weeks).

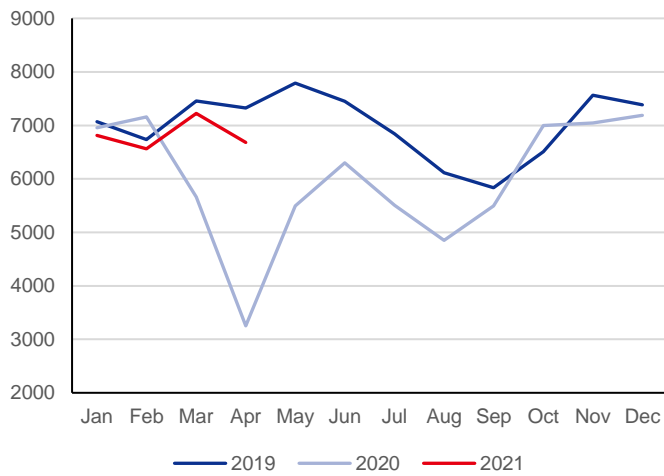
We also note that the structural story of rising private sector market share in auto fuel continues (see Figure 15). Hence growth in auto fuel volumes for the OMCs will be below that of the market. In fact, it is this rising share of private players that ensures that the OMCs cannot permanently raise auto fuel MMs to higher levels.

Figure 12: Indian oil demand (m tonnes) and yoy growth

Year to 31 Mar	2019	2020	2021	2022F	2023F	2024F
Product-wise demand (mmt)						
LPG	24.9	26.3	27.6	28.7	29.8	31.0
Petrol/gasoline	28.3	30.0	28.0	33.5	35.6	37.7
Naphtha	14.1	14.3	14.3	14.4	15.6	15.9
Jet Fuel	8.3	8.0	3.7	4.8	6.7	8.1
Kerosene	3.5	2.4	1.8	1.6	1.5	1.3
Diesel	83.5	82.6	72.7	81.6	84.9	87.4
Furnace oil/LSHS	6.6	6.3	6.0	6.0	5.8	5.5
Bitumen	6.7	6.7	7.1	7.5	7.8	8.2
Petcoke	21.3	21.7	18.3	20.1	20.1	20.1
Other products	16.0	15.8	15.2	15.4	15.5	15.7
Total	213.2	214.1	194.6	213.6	223.3	231.0
Yoy growth						
LPG	6.7%	5.7%	4.8%	4.0%	4.0%	4.0%
Petrol/gasoline	8.1%	6.0%	-6.8%	20.0%	6.0%	6.0%
Naphtha	9.6%	1.0%	-0.1%	1.0%	8.0%	2.0%
Jet Fuel	8.7%	-3.6%	-53.7%	30.0%	40.0%	20.0%
Kerosene	-10.0%	-30.7%	-25.1%	-10.0%	-10.0%	-10.0%
Diesel	3.0%	-1.1%	-12.0%	12.2%	4.0%	3.0%
Furnace oil/LSHS	-2.3%	-4.0%	-4.9%	0.0%	-4.0%	-4.0%
Bitumen	10.2%	0.2%	5.9%	5.0%	5.0%	5.0%
Petcoke	-16.8%	1.7%	-15.7%	10.0%	0.0%	0.0%
Total	3.4%	0.4%	-9.1%	9.8%	4.5%	3.5%

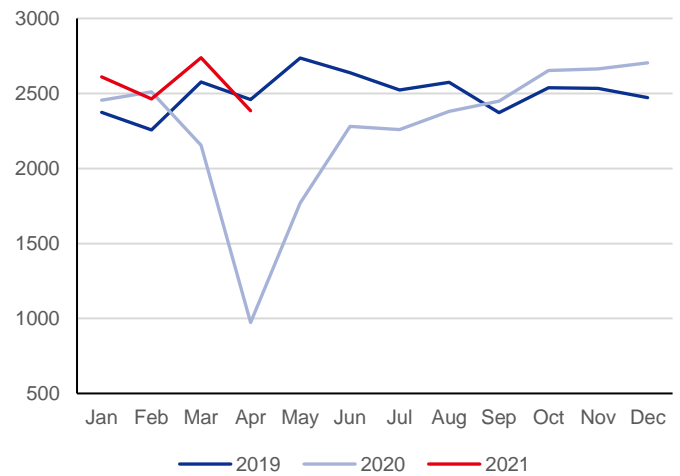
SOURCES: INCRED RESEARCH ESTIMATES, PETROLEUM PLANNING & ANALYSIS CELL

Figure 13: India monthly diesel demand ('000 tonnes)



SOURCES: INCRED RESEARCH, PETROLEUM PLANNING & ANALYSIS CELL

Figure 14: India monthly gasoline demand ('000 tonnes)



SOURCES: INCRED RESEARCH, PETROLEUM PLANNING & ANALYSIS CELL

Figure 15: Impact of private retailers on OMCs' auto fuel sales

Year to 31 Mar	2020	2021F	2022F	2023F	2024F
Diesel					
<u>Sales (mmt)</u>					
BPCL	19.86	17.41	19.39	20.05	20.54
HPCL	17.69	15.79	17.59	18.19	18.63
IOC	36.18	30.89	34.41	35.58	36.44
Private companies	8.85	8.63	10.20	11.03	11.80
Total	82.58	72.72	81.59	84.86	87.40
<u>Market shares</u>					
BPCL	24.0%	23.9%	23.8%	23.6%	23.5%
HPCL	21.4%	21.7%	21.6%	21.4%	21.3%
IOC	43.8%	42.5%	42.2%	41.9%	41.7%
Private companies	10.7%	11.9%	12.5%	13.0%	13.5%
Total	100.0%	100.0%	100.0%	100.0%	100.0%
Diesel OMC sales (mmt)	73.73	64.09	71.39	73.82	75.60
Growth for industry	-1.1%	-11.9%	12.2%	4.0%	3.0%
Growth for OMCs	-2.5%	-13.1%	11.4%	3.4%	2.4%
Gasoline					
<u>Sales (mmt)</u>					
BPCL	7.81	7.19	8.57	9.04	9.52
HPCL	7.26	6.75	8.05	8.49	8.95
IOC	12.15	11.23	13.40	14.12	14.88
Private companies	2.76	2.79	3.52	3.91	4.33
Total	29.98	27.95	33.54	35.55	37.69
<u>Market shares</u>					
BPCL	26.1%	25.7%	25.6%	25.4%	25.3%
HPCL	24.2%	24.1%	24.0%	23.9%	23.7%
IOC	40.5%	40.2%	39.9%	39.7%	39.5%
Private companies	9.2%	10.0%	10.5%	11.0%	11.5%
Total	100.0%	100.0%	100.0%	100.0%	100.0%
Gasoline OMC sales (mmt)	27.22	25.17	30.02	31.64	33.35
Growth for industry	6.0%	-6.8%	20.0%	6.0%	6.0%
Growth for OMCs	4.8%	-7.5%	19.3%	5.4%	5.4%

SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Subsidy issue no longer a concern ►

Subsidy on cooking fuels used to be the historical negative factor for the OMCs, as rising subsidy dues from the government hit the OMC balance sheets, forcing them to seek short-term debt. This is no longer the case. Kerosene is no longer subsidised. While LPG subsidy was virtually nil in 9MFY21 due to low international prices, the same situation continues even post the rally in global oil prices as the OMCs have raised LPG retail prices and passed on the higher costs.

Consequently, there has been a steep drop in subsidy dues. As on Dec 2020, subsidy dues of the OMCs were Rs87bn compared to Rs257bn in Mar 2020 and Rs365bn in Mar 2019. This has resulted in a significant improvement in working capital which will sustain due to zero recurring subsidy.

Figure 16: Quarterly subsidy on cooking fuels (Rs bn)

	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21
Brent US\$/bbl	62.7	50.8	31.6	42.7	44.5
INR/USD	71.2	72.4	75.9	74.4	73.8
Kerosene	3.0	1.8	0.0	0.0	0.0
LPG DBTL	41.0	72.9	14.6	15.6	3.5
LPG PMUY	0.8	0.1	0.0	0.0	0.0
Grand total	44.8	74.8	14.6	15.6	3.5

SOURCES: INCRED RESEARCH, BLOOMBERG, PETROLEUM PLANNING & ANALYSIS CELL

Figure 17: Subsidy payments due from government (Rs bn)

Y/E 31 Mar	2017	2018	2019	2020	Dec-20
IOC	77	94	191	133	43
BPCL	24	39	87	60	22
HPCL	24	39	87	64	22
Total	125	172	365	257	87

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Retain Add on IOC/HPCL, Reduce on BPCL

While OMC stock prices have recovered from the trough levels in 2020, we find IOC and HPCL valuations still attractive given our assumptions of recovery in oil demand and GRMs. IOC's dividend yield is compelling, in our view. We note that the market gives less credit to IOC for its relatively lower gearing. In our view, there is a clear relationship between debt levels and ROE, with both BPCL/HPCL enjoying higher ROE partly by gearing up.

In fact, HPCL's reported debt levels are understated as it considers Hindustan Mittal Energy (HMEL) and the Rajasthan Refinery as joint ventures. Hence the large debt of these two entities remains off-balance sheet and is not reported in HPCL's consolidated numbers.

We expect core earnings (excluding inventory gains) of both IOC and HPCL to rise in FY22F/23F due to the improvement in GRMs and recovery in Indian oil demand. Hence we reiterate our Add rating on IOC (TP Rs150) and HPCL (TP Rs285).

Our stock ratings and valuations are based on business fundamentals and BPCL's significantly higher valuation (relative to peers) reflects market hopes of a successful conclusion of the government's plan for a strategic sale.

We recently downgraded BPCL as we believe its valuation is expensive if the strategic sale upside is ignored. Its move to raise its stake in BORL to 100% and sell its entire stake in NRL will bring down cash generation and significantly raise its consolidated net debt equity (from 92% in FY21F to 130% in FY22F due to the inclusion of BORL, which was not consolidated earlier). Given the recent Covid outbreak, we expect the strategic sale process to be delayed to at least 2HFY22F.

Figure 18: OMCs' valuations and key ratios

	IOC	BPC	HPCL
Stock price Rs (12 May21)	103	449	262
PER (x)			
FY21F	4.6	5.4	4.1
FY22F	5.9	12.00	6.6
FY23F	5.2	10.5	5.9
P/BV (x)			
FY21F	0.87	1.82	1.04
FY22F	0.81	1.94	0.97
FY23F	0.75	1.78	0.88
Dividend yield			
FY21F	10.7%	6.1%	7.9%
FY22F	7.8%	4.4%	5.5%
FY23F	9.7%	4.4%	5.3%
ROE			
FY21F	20.1%	38.6%	27.3%
FY22F	14.2%	15.7%	15.1%
FY23F	15.1%	17.8%	15.1%
Net gearing			
FY21F	86%	92%	96%
FY22F	88%	130%	118%
FY23F	82%	124%	116%

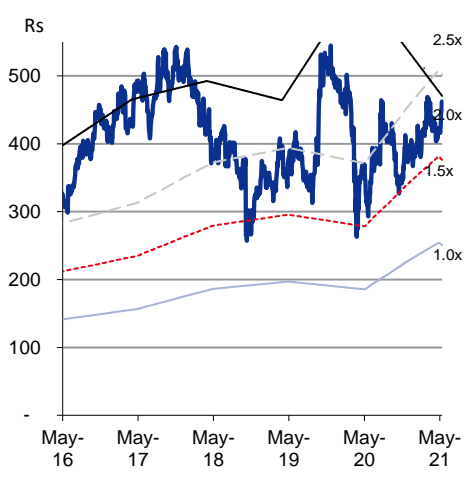
SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 19: IOC's P/BV (x) chart



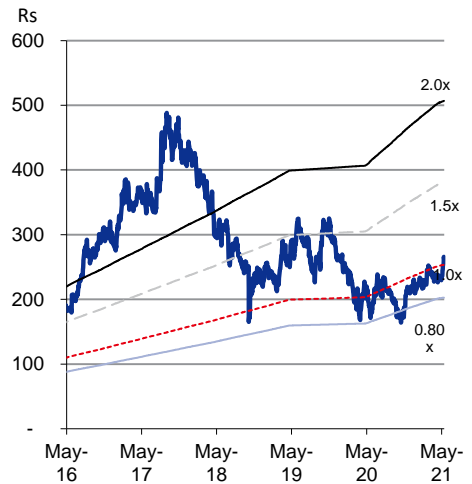
SOURCES: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 20: BPCL's P/BV (x) chart



SOURCES: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 21: HPCL's P/BV (x) chart



SOURCES: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

India

REDUCE (no change)

Consensus ratings*: Buy 37 Hold 1 Sell 1	
Current price:	Rs449
Target price:	Rs410
Previous target:	Rs410
Up/downside:	-8.7%
InCred Research / Consensus:	-19.7%
Reuters:	BPCL.NS
Bloomberg:	BPCL IN
Market cap:	US\$13,272m
	Rs9,74,537m
Average daily turnover:	US\$67.9m
	Rs4982.5m
Current shares o/s:	2,169.2m
Free float:	41.4%
*Source: Bloomberg	

Key changes in this note

- FY21F EPS decreased by 1.7%
- FY22F EPS decreased by 3.1%
- FY23F EPS decreased by 1.5%



Source: Bloomberg

Price	1M	3M	12M
Absolute (%)	11.2	7.5	43.8
Relative (%)	10.9	13.7	(5.5)

Major shareholders	% held
Govt of India	53.0
LIC	5.7
BPCL trust (treasury shares)	4.4

Analyst(s)

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Bharat Petroleum

Delays in divestment

- Despite pressure on auto fuel marketing margins, we expect 4QFY21F net profit to remain robust due to high inventory gains.
- We expect recovery in volumes and GRMs in FY22F/23F, assuming the current negative impact on economic activity due to Covid to be short-lived.
- We reiterate Reduce with TP of Rs410 (Rs389 for core business at 1.6x Mar23F P/BV, 18% ROE in FY23F and Rs21 value for E&P).

Inventory gains to drive 4QFY21F net profit

We expect BPCL standalone to report 4QFY21F net profit of Rs96.8bn. 4QFY21F underlying profitability has been poor due to a sharp drop in auto fuel marketing margins (as oil marketing companies [OMCs] like BPCL kept auto fuel prices largely unchanged in Mar 2021 due to state elections) and tepid recovery in gross refining margins (GRMs). However, we expect reported profits to be supported by large inventory gains due to the sharp increase in global oil prices.

BORL/NRL results already released

Our estimates factor in actual FY21 results of Bharat Oman Refineries (BORL) and Numaligarh Refinery (NRL). BORL reported a net loss of Rs763m vs. our estimate of net profit of Rs278m. Net debt rose from Rs84bn at end-Mar 2020 to at least Rs106bn at end-Mar 2021. BPCL has increased its stake in BORL from 63% to 100% which would significantly impact its consolidated debt (BORL was treated as a JV earlier and debt not consolidated). On the other hand, BPCL sold its 62% stake in NRL in Mar 2021, but NRL results indicate that it would get an additional dividend of Rs11.6bn prior to this sale.

We assume relative normalisation of economic activity in FY22F/23F

We have considered inventory gains/losses only in FY21F, and not in FY22F/23F. Core FY21F profits (i.e. excluding inventory/forex gains) were significantly low as Covid impacted marketing volumes as well as GRMs. In view of the recent revival in Covid cases, we have marginally cut our FY22F refining and marketing volumes, expecting the negative Covid impact to be short-lived. The key earnings driver remains improvement in GRMs which we forecast at US\$3.5/bbl/US\$4.5/bbl in FY22F/23F compared to US\$1.8/bbl in 4QFY21F. In our view, OMCs have focused on integrated margins, and the refining margin squeeze in FY21F has sought to be compensated by a record level of auto fuel marketing margins (MMs). As GRMs rise in FY22F/23F, we expect some moderation in MMs.

Reiterate Reduce with TP of Rs410

BPCL's significant premium valuations relative to its peers indicate that investors are focusing on the strategic sale by the government, rather than fundamentals of the business itself. Our valuation does not consider any potential upside from a successful sale. However, given the renewed outbreak of Covid, we believe that the sale will be pushed back by at least six months to 2HFY22F.

Financial Summary	Mar-19A	Mar-20A	Mar-21F	Mar-22F	Mar-23F
Revenue (Rsm)	29,82,256	28,45,719	18,68,153	26,22,961	25,29,705
Operating EBITDA (Rsm)	1,58,198	93,018	1,96,424	1,59,081	1,75,495
Net Profit (Rsm)	78,023	30,554	1,65,229	75,302	86,340
Core EPS (Rs)	39.7	15.5	83.1	37.5	43.0
Core EPS Growth	(13.4%)	(60.8%)	434.9%	(54.9%)	14.7%
FD Core P/E (x)	11.32	28.92	5.41	11.99	10.46
DPS (Rs)	19.0	16.5	25.0	18.0	18.0
Dividend Yield	5.64%	4.90%	6.13%	4.41%	4.41%
EV/EBITDA (x)	7.51	14.71	6.26	8.83	8.10
P/FCFE (x)	(17.22)	(5.47)	6.72	(8.44)	(62.17)
Net Gearing	93.0%	153.2%	91.7%	129.9%	124.2%
P/BV (x)	2.28	2.42	1.82	1.94	1.78
ROE	20.7%	8.1%	38.6%	15.7%	17.8%
% Change In Core EPS Estimates			(1.69%)	(3.06%)	(1.48%)
InCred Research/Consensus EPS (x)			44.13	42.10	47.85

SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS. PRICED AS AT 14 MAY 2021

Delays in divestment

Lower auto fuel marketing margins in 4QFY21F are likely to be compensated by virtually equivalent levels of inventory gains in our view. Our estimate of 4QFY21F other income includes an estimated post tax gain of Rs76.9bn from sale of NRL shares as well as Rs11.6bn of interim dividend from NRL (prior to sale of shares). Our staff cost numbers include costs relating to employee redundancy and share issue to employees at two-thirds discount to market price.

Figure 22: BPCL standalone quarterly results (Rs m)

	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21F	yoy %	qoq %
EBITDA	-16,997	39,158	37,266	38,863	30,554	-280%	-21%
Interest	-5,786	-5,871	-126	-2,510	-3,500	-40%	39%
Depreciation	-9,474	-9,959	-9,888	-9,936	-10,404	10%	5%
Other income	11,568	5,933	5,726	15,146	93,621	709%	518%
Profit before tax	-20,689	29,262	32,978	41,562	1,10,271	-633%	165%
Tax	6,011	-9,940	-12,660	-16,112	-17,330	-388%	8%
Net profit	-13,610	20,762	22,478	27,776	96,822	-811%	249%
EPS (Rs)	-6.92	10.56	11.43	13.82	49.23	-811%	256%
Operating data							
Refining throughput (mmt)	8.39	5.14	5.63	7.24	8.33	-1%	15%
Reported GRM-BPCL (US\$/bbl)	0.75	0.39	5.80	2.47	3.80	407%	54%
GRM ex-inventory -BPCL(US\$/bbl)	7.44	1.93	1.54	1.23	2.00	-73%	63%
Other financial data							
Staff costs	9,308	9,029	16,965	12,890	12,673	36%	-2%
Inventory gains/(loss)							
In refining	-29,650	-4,380	13,030	5,020	8,195		
In marketing	-19,370	10,030	11,500	2,690	5,000		
EBITDA excl inventory & forex	44,133	34,078	12,736	31,153	17,359	-61%	-44%

SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Broadly gasoline volumes have shown some positive surprise while diesel has disappointed. Jet fuel volumes are still significantly below pre-Covid levels.

Figure 23: Transportation fuels marketing performance

	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21F	yoy %	qoq %
Gasoline sales (mmt)	1.87	1.25	1.81	2.09	2.04	8.9%	-2.6%
Diesel sales (mmt)	4.77	3.50	3.86	5.10	4.95	3.7%	-3.0%
Jet fuel sales (mmt)	0.49	0.09	0.18	0.24	0.28	-43.2%	15.9%
Gasoline market share	26.25%	24.88%	25.53%	26.05%	26.05%		
Diesel market share	24.15%	23.26%	24.35%	24.02%	24.02%		
Jet fuel market share	24.83%	25.61%	23.24%	22.41%	20.61%		

SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

BPCL's second interim dividend of Rs5/share was significantly lower than our estimate of Rs38. Hence our ROE estimates have fallen, but so have debt equity ratios. Staff costs in FY21F assume redundancy costs of Rs7bn and share issue expenses of Rs10.1bn.

Figure 24: BPCL standalone P&L (Rs m)

Y/E Mar	2019	2020	2021F	2022F	2023F
EBITDA	1,26,646	72,207	1,48,835	1,46,544	1,55,399
Interest	-13,190	-21,819	-12,067	-20,921	-19,966
Depreciation	-31,893	-37,869	-40,187	-44,601	-47,373
Other income	22,832	14,191	1,20,425	20,089	20,318
Pre-tax profit	1,04,396	26,710	2,17,006	1,01,111	1,08,378
Tax	-33,076	122	-46,235	-33,367	-35,765
Net profit	71,320	26,832	1,70,771	67,744	72,613
EPS (Rs)	36.3	13.6	85.9	33.7	36.1
Book value per share (Rs)	186.8	168.9	239.5	250.5	268.6
ROE	20.1%	7.7%	42.2%	13.8%	13.9%
Net debt equity	65%	128%	54%	53%	49%
Staff costs	36,642	36,915	51,556	33,000	34,650

SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

We have lowered our estimates on auto fuel margins in FY21F due to the price freeze implemented in Mar 2021, but raised our estimate of inventory gains on account of rising global oil prices.

Figure 25: BPCL standalone EBITDA working (Rs m)

Y/E Mar	2019	2020	2021F	2022F	2023F
<u>Gross margins from all business segments</u>					
Refinery (excl inventory)	65,568	71,264	24,608	57,066	76,725
Auto fuels	94,390	90,544	1,08,972	1,10,307	1,02,731
LPG/kero marketing	24,776	26,005	27,475	28,534	29,640
Balance products/lubricants/pipeline	47,023	48,776	46,888	49,252	50,676
Sub total	2,31,757	2,36,589	2,07,943	2,45,159	2,59,772
Less: Labour cost	-36,642	-36,915	-51,556	-33,000	-34,650
Less: other operational expenses	-79,109	-78,749	-58,638	-65,615	-69,723
Sub total	1,16,006	1,20,926	97,750	1,46,544	1,55,399
<u>Plus: Non-operational items</u>					
Subsidy borne	0	0	0	0	0
Inventory in refining	8,900	-28,850	21,865		
Inventory in marketing	1,740	-18,330	29,220		
EBITDA	1,26,646	73,746	1,48,835	1,46,544	1,55,399

SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

In FY21, BPCL has sought to compensate for poor core GRMs by raising auto fuel marketing margins to unsustainable levels. We believe that GRMs in FY22F/23F will recover while marketing margins will moderate. The latest wave of Covid will result in some impact on refining volumes in FY22F.

Figure 26: BPCL assumptions

Y/E Mar	2019	2020	2021F	2022F	2023F
Brent crude oil, US\$/bbl	70.00	61.00	44.90	60.00	55.00
Rupee dollar rate yr avg	69.91	70.89	74.23	75.00	75.00
BPCL refinery throughput (mmt)	31.01	31.91	26.50	31.10	32.00
BPCL reported refinery GRM (\$/bbl)	4.58	2.50	3.15	3.26	4.26
BPCL ex-inventory GRM (US\$/bbl)	4.02	4.20	1.87	3.26	4.26
Auto fuel volumes (mmt)	27.85	27.67	24.59	27.96	29.09
Auto fuels margins (Rs/kl)	2,682	2,583	3,492	3,102	2,776
BORL throughput (mmt)	5.65	7.82	6.12	7.21	7.96
BORL GRM (US\$/bbl)	9.42	4.18	7.36	7.00	8.50
NRL throughput (mmt)	2.90	2.38	2.70	2.90	2.90
NRL GRM (US\$/bbl)	26.50	23.62	36.66	38.25	39.99
NRL NE benefit (US\$/bbl)	15.2	16.0	32.3	31.2	32.0

SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 27: Change in estimates for BPCL

Year to 31 Mar	Old			New			Change %		
	2021F	2022F	2023F	2021F	2022F	2023F	2021F	2022F	2023F
Brent crude oil, US\$/bbl	43.0	50.0	50.0	44.90	60.00	55.00	4.4%	20.0%	10.0%
Rupee US dollar average	75	75	75	74.23	75.00	75.00	-1.0%	0.0%	0.0%
BPCL refinery throughput (mmt)	26.02	32.00	32.00	26.50	31.10	32.00	1.8%	-2.8%	0.0%
BPCL refinery GRM (\$/bbl)	2.68	3.26	4.26	3.15	3.26	4.26	17.6%	0.0%	0.0%
Auto fuel volumes (mmt)	24.69	27.88	28.95	24.59	27.96	29.09	-0.4%	0.3%	0.5%
Auto fuels margins (Rs/kl)	3,807	3,102	2,774	3,492	3,102	2,776	-8.3%	0.0%	0.0%
BORL throughput (mmt)	6.2712	8.424	8.424	6.12	7.21	7.96	-2.4%	-14.4%	-5.6%
BORL GRM (US\$/bbl)	7.00	7.00	8.50	7.36	7.00	8.50	5.1%	0.0%	0.0%
EBITDA (Rsbn)	1,94,659	1,61,885	1,76,744	1,96,424	1,59,081	1,75,495	0.9%	-1.7%	-0.7%
Net profit (Rs bn)	1,67,148	77,262	87,634	1,65,229	75,302	86,340	-1.1%	-2.5%	-1.5%
EPS (Rs)	84.50	38.62	43.59	83.09	37.46	42.95	-1.7%	-3.0%	-1.5%

SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 28: Our SOP valuation of BPCL (Rs m)

	Book value	P/BV (x)	Value per share (Rs)
Core refining and marketing business at Dec22F P/BV	252	1.545	389
E&P value for Mozambique gas assets			21
Target price			410

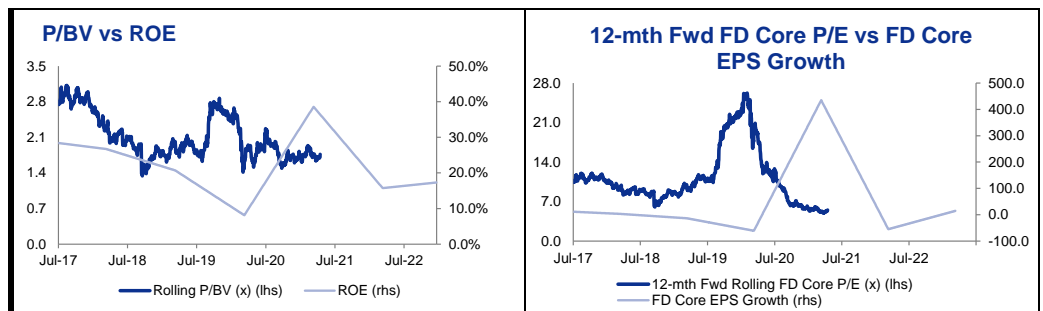
SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

The BPCL stock price movement has been guided by news flow on the strategic sale of the government's holding in the company (which could be at a significant premium over normal market valuation) rather than fundamentals of the business itself. We believe divestment is pushed back to at least 2HFY22F.

Figure 29: BPCL's P/BV (x) chart



BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-19A	Mar-20A	Mar-21F	Mar-22F	Mar-23F
Total Net Revenues	29,82,256	28,45,719	18,68,153	26,22,961	25,29,705
Gross Profit	3,70,831	3,06,694	3,99,496	3,56,866	3,82,373
Operating EBITDA	1,58,198	93,018	1,96,424	1,59,081	1,75,495
Depreciation And Amortisation	(34,178)	(46,741)	(42,845)	(52,107)	(55,067)
Operating EBIT	1,24,020	46,277	1,53,579	1,06,974	1,20,428
Financial Income/(Expense)	(17,640)	(26,370)	(16,647)	(31,492)	(30,040)
Pretax Income/(Loss) from Assoc.	9,373	14,007	(2,254)	15,587	16,568
Non-Operating Income/(Expense)	13,300	2,602	96,798	13,443	13,663
Profit Before Tax (pre-EI)	1,29,054	36,516	2,31,475	1,04,512	1,20,620
Exceptional Items					
Pre-tax Profit	1,29,054	36,516	2,31,475	1,04,512	1,20,620
Taxation	(43,775)	142	(53,645)	(28,986)	(34,057)
Exceptional Income - post-tax					
Profit After Tax	85,279	36,658	1,77,830	75,525	86,563
Minority Interests	(7,256)	(6,104)	(12,602)	(223)	(223)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	78,023	30,554	1,65,229	75,302	86,340
Recurring Net Profit	78,023	30,554	1,65,229	75,302	86,340
Fully Diluted Recurring Net Profit	78,023	30,554	1,65,229	75,302	86,340

Cash Flow

(Rs mn)	Mar-19A	Mar-20A	Mar-21F	Mar-22F	Mar-23F
EBITDA	1,58,198	93,018	1,96,424	1,59,081	1,75,495
Cash Flow from Invt. & Assoc.	13,300	2,602	96,798	13,443	13,663
Change In Working Capital	(26,540)	(1,090)	76,440	(634)	11,710
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	(20,284)	(1,695)	(26,261)	(79,949)	(9,724)
Net Interest (Paid)/Received	(17,640)	(26,370)	(16,647)	(31,492)	(30,040)
Tax Paid	(43,775)	142	(53,645)	(28,986)	(34,057)
Cashflow From Operations	63,259	66,607	2,73,109	31,463	1,27,048
Capex	(1,10,332)	(1,97,000)	(1,26,007)	(1,95,074)	(1,34,450)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments	(4,236)	(31,211)	(14,100)	56,664	(7,125)
Other Investing Cashflow					
Cash Flow From Investing	(1,14,568)	(2,28,211)	(1,40,107)	(1,38,411)	(1,41,575)
Debt Raised/(repaid)					
Proceeds From Issue Of Shares			15,183		
Shares Repurchased					
Dividends Paid	(41,883)	(57,423)	(41,759)	(40,607)	(36,184)
Preferred Dividends					
Other Financing Cashflow					
Cash Flow From Financing	(41,883)	(57,423)	(26,577)	(40,607)	(36,184)
Total Cash Generated	(93,193)	(2,19,026)	1,06,425	(1,47,554)	(50,711)
Free Cashflow To Equity	(51,309)	(1,61,603)	1,33,002	(1,06,948)	(14,527)
Free Cashflow To Firm	(33,670)	(1,35,233)	1,49,649	(75,455)	15,513

SOURCES: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-19A	Mar-20A	Mar-21F	Mar-22F	Mar-23F
Total Cash And Equivalents	68,706	63,733	57,351	62,413	62,414
Total Debtors	69,063	53,780	48,025	71,118	69,077
Inventories	2,29,349	2,22,426	1,96,725	2,99,344	2,90,761
Total Other Current Assets	1,84,122	1,69,127	1,06,537	1,16,103	1,14,172
Total Current Assets	5,51,239	5,09,066	4,08,638	5,48,979	5,36,425
Fixed Assets	6,31,076	7,81,335	8,64,496	10,07,464	10,86,847
Total Investments	1,86,989	2,18,200	2,32,300	1,75,637	1,82,762
Intangible Assets					
Total Other Non-Current Assets					
Total Non-current Assets	8,18,065	9,99,535	10,96,797	11,83,100	12,69,609
Short-term Debt					
Current Portion of Long-Term Debt					
Total Creditors	4,05,671	3,69,672	3,52,065	4,83,489	4,82,644
Other Current Liabilities					
Total Current Liabilities	4,05,671	3,69,672	3,52,065	4,83,489	4,82,644
Total Long-term Debt	4,48,391	6,54,755	5,25,903	6,67,682	6,91,400
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities					
Total Non-current Liabilities	4,48,391	6,54,755	5,25,903	6,67,682	6,91,400
Total Provisions	1,06,895	98,286	1,16,586	1,15,058	1,25,485
Total Liabilities	9,60,956	11,22,713	9,94,554	12,66,229	12,99,529
Shareholders Equity	3,87,647	3,65,325	4,91,182	4,65,850	5,06,506
Minority Interests	20,700	20,563	19,699		
Total Equity	4,08,348	3,85,888	5,10,881	4,65,850	5,06,506

Key Ratios					
	Mar-19A	Mar-20A	Mar-21F	Mar-22F	Mar-23F
Revenue Growth	26.4%	(4.6%)	(34.4%)	40.4%	(3.6%)
Operating EBITDA Growth	3.5%	(41.2%)	111.2%	(19.0%)	10.3%
Operating EBITDA Margin	5.3%	3.3%	10.5%	6.1%	6.9%
Net Cash Per Share (Rs)	(193.04)	(300.49)	(235.63)	(301.09)	(312.89)
BVPS (Rs)	197.09	185.74	247.01	231.74	251.96
Gross Interest Cover	7.03	1.75	9.23	3.40	4.01
Effective Tax Rate	33.9%		23.2%	27.7%	28.2%
Net Dividend Payout Ratio	63.9%	141.7%	33.1%	52.9%	46.1%
Accounts Receivables Days	7.41	7.88	9.95	8.29	10.11
Inventory Days	31.77	32.47	52.09	39.95	50.15
Accounts Payables Days	53.03	55.73	89.69	67.29	82.11
ROIC (%)	11.5%	4.0%	13.3%	7.9%	8.4%
ROCE (%)	14.2%	4.6%	13.8%	9.2%	9.7%
Return On Average Assets	7.5%	3.9%	12.6%	6.1%	6.2%

SOURCES: INCRED RESEARCH, COMPANY REPORTS

India

ADD (no change)

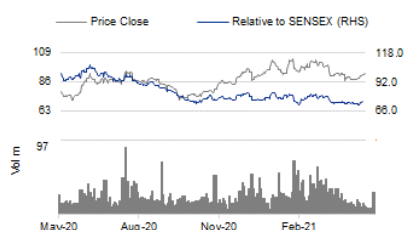
Consensus ratings*: Buy 32 Hold 4 Sell 1

Current price:	Rs103
Target price:	Rs150
Previous target:	Rs135
Up/downside:	45.6%
InCred Research / Consensus:	20.5%
Reuters:	IOC.NS
Bloomberg:	IOCL IN
Market cap:	US\$13,180m
	Rs9,67,776m
Average daily turnover:	US\$35.0m
	Rs2570.0m
Current shares o/s:	9,414.1m
Free float:	48.5%

*Source: Bloomberg

Key changes in this note

- FY21F EPS increased by 12.9%
- FY22F EPS decreased by 0.9%
- FY23F EPS decreased by 4.6%



Source: Bloomberg

Price	1M	3M	12M
Absolute (%)	18.2	8.1	37.2
Relative (%)	17.8	14.4	(9.8)

Major shareholders	% held
Government of India	51.5
ONGC	14.2
LIC	7.7

Analyst(s)



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Attractive valuations

- Despite pressure on auto fuel marketing margins, we expect 4QFY21F net profit to remain robust due to high inventory gains.
- We expect recovery in volumes and GRMs in FY22F/23F, assuming the current negative impact on economic activity due to Covid to be short-lived.
- We maintain our Add rating and roll forward our TP to Rs150 (1.1x Mar23F P/BV, 15% ROE in FY23F). Over 7% dividend yield is key catalyst.

Inventory gains to drive 4QFY21F net profit

We expect IOC standalone to report 4QFY21F net profit of Rs67.5bn. In view of state elections in Apr 2021, oil marketing companies (OMCs) like IOC kept auto fuel prices largely unchanged in Mar 2021, which significantly depressed marketing margins (MMs) in 4QFY21F. In terms of marketing volumes, gasoline was better than expected, while diesel disappointed and jet fuel remained well below pre-Covid levels. The qoq recovery in gross refining margins (GRMs) in 4Q was also tepid (Singapore GRM at US\$1.8/bbl vs. US\$1.2/bbl in 3Q) resulting in poor underlying profitability. However, we expect reported profits to be strong on the back of very large inventory gains due to the sharp increase in global oil prices. IOC has already declared two interim dividends (total Rs10.5/share) in 4Q.

We assume relative normalisation of economic activity in FY22F/23F

We have considered inventory gains/losses only in FY21F, and not in FY22F/23F. Core FY21F profits (i.e., excluding inventory/forex gains) were significantly low as Covid impacted marketing volumes as well as GRMs. In view of recent revival in Covid cases, we have marginally cut our FY22F refining and marketing volumes, expecting the negative Covid impact to be short-lived. The key earnings driver remains improvement in GRMs which we forecast at US\$3.5/bbl/US\$4.5/bbl in FY22F/23F compared to US\$1.8/bbl in 4QFY21F. IOC should also benefit from the recent strength in petrochemical margins (arising out of the winter storm Uri in the US in mid-Feb 2021), though we expect the margin surge to abate by Jul 2021. In our view, OMCs have focused on integrated margins, and the refining margin squeeze in FY21F has sought to be compensated by a record level of auto fuel MMs. As GRMs rise in FY22F/23F, we expect some moderation in MMs. Note that OMCs have raised auto fuel prices and MMs in May 2021 after the declaration of state results.

Reiterate Add with TP of Rs150

Given our assumption of improvement in core business profitability in FY23F/23F (14-15% ROE without any inventory/forex gains), we find IOC valuations very attractive. Especially compared to its peer group, IOC has much lower gearing which slightly depresses its ROE. The low valuation results in high dividend yields (over 7% in FY22F/23F). The key risk is a sharp spurt in global oil prices.

Financial Summary

	Mar-19A	Mar-20A	Mar-21F	Mar-22F	Mar-23F
Revenue (Rsm)	52,81,490	48,43,622	35,25,619	48,24,212	45,90,366
Operating EBITDA (Rsm)	3,69,646	1,17,610	3,96,089	3,38,000	3,80,868
Net Profit (Rsm)	1,73,767	(8,931)	2,03,962	1,59,727	1,83,277
Core EPS (Rs)	18.4	(1.0)	22.2	17.4	20.0
Core EPS Growth	(21.4%)	(105.3%)	(2,383.7%)	(21.7%)	14.7%
FD Core P/E (x)	5.60	(107.16)	4.63	5.91	5.15
DPS (Rs)	9.3	4.3	11.0	8.0	10.0
Dividend Yield	10.87%	5.00%	10.70%	7.78%	9.73%
EV/EBITDA (x)	4.07	16.12	4.24	5.24	4.66
P/FCFE (x)	6.45	14.64	10.28	14.37	11.17
Net Gearing	73.8%	119.8%	86.3%	88.4%	82.3%
P/BV (x)	0.86	0.99	0.87	0.81	0.75
ROE	15.4%	(0.9%)	20.1%	14.2%	15.1%
% Change In Core EPS Estimates			12.88%	(0.89%)	(4.62%)
InCred Research/Consensus EPS (x)			14.90	16.24	18.58

SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS. PRICED AS AT 14 MAY 2021

Attractive valuations

Lower auto fuel marketing margins in 4QFY21F will be more than compensated by likely massive inventory gains in our view.

Broadly gasoline volumes have shown some positive surprise while diesel has disappointed. Jet fuel volumes are still significantly below pre-Covid levels.

IOC's net debt equity remains well below its peers, with no material off balance sheet debt (like HPCL). Higher ROE of peer group is also partly on account of higher debt levels.

Figure 30: IOC standalone quarterly result trends (Rs m)

	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21F	yoy %	qoq %
EBITDA	-1,10,925	55,134	94,278	96,226	1,18,536	-207%	23%
Interest	-18,504	-11,713	-2,211	-6,286	-10,224	-45%	63%
Depreciation	-23,895	-23,557	-24,043	-24,674	-24,570	3%	0%
Other income	17,223	6,422	15,374	12,695	7,500	-56%	-41%
Profit before tax	-1,36,102	26,286	83,398	77,962	91,242	-167%	17%
Tax	84,248	-7,177	-21,125	-28,796	-23,723	-128%	-18%
Net profit	-51,853	19,108	62,273	49,166	67,519	-230%	37%
EPS (Rs)	-5.65	2.08	6.78	5.36	7.35	-230%	37%
Operating data							
Refining throughput (mmt)	17.10	12.93	13.97	17.86	17.59	3%	-2%
IOC standalone reported GRM (US\$/bbl)	-9.64	-1.98	8.62	2.19	6.80	-171%	211%
IOC standalone GRM ex-inventory (US\$/bbl)	8.26	4.42	-1.04	1.23	1.80	-78%	46%
Inventory gains/(loss)							
In refining	-1,61,840	-45,880	73,240	9,190	46,810		
In marketing	-22,910	13,920	760	17,110	20,000		
EBITDA excl forex, inventory and provisions	1,12,125	86,284	20,278	69,926	46,727	-58%	-33%

SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 31: Transportation fuels marketing performance

	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21F	yoy %	qoq %
Gasoline sales (mmt)	2.86	2.05	2.84	3.21	3.13	9.3%	-2.6%
Diesel sales (mmt)	8.63	6.43	6.65	9.04	8.77	1.6%	-3.0%
Jet fuel sales (mmt)	1.14	0.25	0.51	0.74	0.86	-24.8%	15.9%
Gasoline market share	40.2%	40.8%	40.1%	40.0%	40.0%		
Diesel market share	43.7%	42.7%	42.0%	42.6%	42.6%		
Jet fuel market share	59.6%	64.5%	63.5%	63.5%	63.5%		

SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 32: IOC standalone P&L (Rs m)

Y/E Mar	2019	2020	2021F	2022F	2023F
EBITDA	3,53,269	1,14,247	3,73,993	3,32,476	3,69,505
Depreciation	-75,143	-87,661	-96,844	-97,893	-1,04,661
Interest	-43,110	-59,795	-30,434	-53,967	-54,139
Other income	16,254	-3,732	42,142	30,197	28,474
Pre-tax profit	2,51,270	-36,941	2,88,857	2,10,814	2,39,178
Tax	-82,328	50,073	-88,675	-53,125	-60,273
Net profit	1,68,942	13,132	2,00,182	1,57,689	1,78,905
EPS (Rs)	17.9	1.4	21.8	17.2	19.5
Book value per share (Rs)	115.1	102.1	113.4	122.9	132.6
ROE	15.4%	1.3%	20.2%	14.5%	15.3%
Net debt equity	69%	111%	79%	82%	77%
Staff costs (Rs m)	1,11,022	87,927	1,00,000	1,05,000	1,10,250
Entry tax provision/(reversal) (Rsm)	-11,550	-6,268			

SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

We have lowered our estimates on auto fuel margins in FY21F due to the price freeze implemented in Mar 2021, but raised our estimate of inventory gains on account of rising global oil prices.

Figure 33: IOC standalone EBITDA working (Rs m)

Y/E Mar	2019	2020	2021F	2022F	2023F
<u>Gross margins from all business segments</u>					
Refinery (excl inventory)	1,66,676	1,51,246	52,340	1,35,651	1,86,416
Auto fuels	1,57,607	1,46,429	1,79,008	1,81,616	1,67,409
LPG/kero marketing	48,369	51,023	53,120	55,084	57,143
Pipeline	83,739	81,227	74,729	88,180	92,589
Petrochem	70,085	49,501	73,924	81,486	88,576
Balance products/lubricants	93,144	84,416	74,365	81,025	85,735
Sub total	6,19,620	5,63,842	5,07,487	6,23,042	6,77,868
Less: Labour cost	-1,11,022	-87,927	-1,00,000	-1,05,000	-1,10,250
Less Entry tax provision/reversal	11,550	6,268			
Less: balance opex	-2,08,600	-2,01,666	-1,68,644	-1,85,566	-1,98,114
Sub total	3,11,549	2,80,516	2,38,843	3,32,476	3,69,505
<u>Plus: Non-operational items</u>					
Subsidy borne	0	0	0	0	0
Inventory in refining	32,420	-1,48,360	83,360		
Inventory in marketing	9,300	-17,910	51,790		
EBITDA	3,53,269	1,14,246	3,73,993	3,32,476	3,69,505

SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

In FY21F, IOC has sought to compensate for poor core GRMs by raising auto fuel marketing margins to unsustainable levels. We believe that GRMs in FY22F/23F will recover while marketing margins will moderate. The latest wave of Covid will result in some impact on refining volumes in FY22F.

Figure 34: IOC assumptions

Y/E Mar	2019	2020	2021F	2022F	2023F
Brent crude oil, US\$/bbl	70.0	61.0	44.9	60.0	55.0
Rupee dollar rate yr avg	69.9	70.9	74.2	75.0	75.0
IOC crude throughput (mmt)	71.8	69.4	62.4	70.5	75.4
IOC reported GRM (US\$/bbl)	5.41	0.08	4.00	3.50	4.50
IOC ex-inventory GRM (US\$/bbl)	4.53	4.18	1.50	3.50	4.50
CPCL crude throughput (mmt)	10.7	10.2	8.2	9.5	10.2
CPCL GRM (US\$/bbl)	3.7	(1.2)	7.1	3.0	4.0
Auto fuel volumes (mmt)	48.67	48.33	42.12	47.81	49.70
Auto fuels margins (Rs/kl)	2,574	2,404	3,363	3,000	2,658
<u>Petchem margins (US\$/t)</u>					
PP less naphtha	585	494	592	550	480
PE less naphtha	620	409	529	500	450
PTA less naphtha	474	323	192	214	214
MEG less naphtha	445	235	249	259	236

SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 35: Change in estimates for IOC

Year to 31 Mar	Old			New			Change %		
	2021F	2022F	2023F	2021F	2022F	2023F	2021F	2022F	2023F
Brent crude (US\$/bbl)	43.0	50.0	50.0	44.9	60.0	55.0	4.4%	20.0%	10.0%
Rupee US dollar average	75.0	75.0	75.0	74.2	75.0	75.0	-1.0%	0.0%	0.0%
IOC crude throughput (mmt)	62.5	74.4	74.4	62.4	70.5	75.4	-0.2%	-5.2%	1.3%
IOC GRM (US\$/bbl)	3.20	3.50	4.50	4.00	3.50	4.50	25.0%	0.0%	0.0%
CPCL crude throughput (mmt)	8.10	10.20	10.20	8.24	9.50	10.20	1.8%	-6.9%	0.0%
CPCL GRM (US\$/bbl)	5.64	3.00	4.00	7.14	3.00	4.00	26.7%	0.0%	0.0%
Auto fuel volumes (mmt)	43.1	48.5	50.4	42.1	47.8	49.7	-2.2%	-1.5%	-1.3%
Auto fuels margins (Rs/kl)	3,724	3,000	2,654	3,363	3,000	2,658	-9.7%	0.0%	0.2%
<u>Petchem margins (US\$/t)</u>									
PP less naphtha	600	500	480	592	550	480	-1.3%	10.0%	0.0%
PE less naphtha	550	450	450	529	500	450	-3.8%	11.1%	0.0%
PTA less naphtha	193.9	234	234	192	214	214	-0.8%	-8.5%	-8.5%
EBITDA (Rsbn)	372.2	342.0	392.2	396.1	338.0	380.9	6.4%	-1.2%	-2.9%
Net profit (Rs bn)	180.7	161.2	192.2	203.9	159.7	183.3	12.8%	-0.9%	-4.6%
EPS (Rs)	19.68	17.55	20.93	22.22	17.40	19.96	12.9%	-0.9%	-4.6%

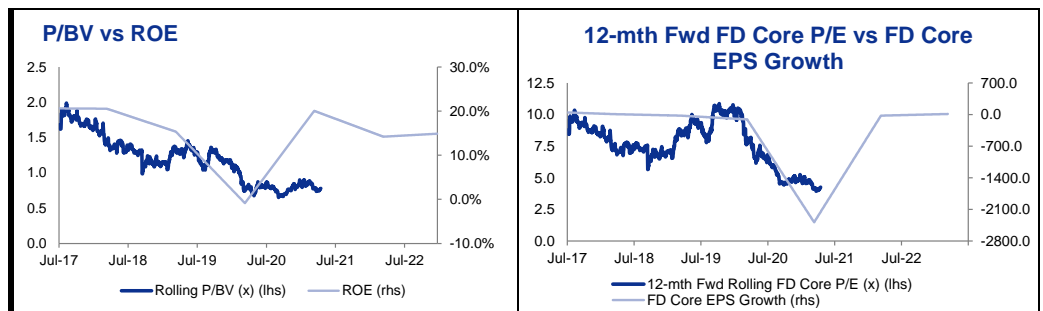
SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Valuations in 2020 dropped to trough levels due to the sharp downturn in refining, large inventory losses and no clarity on demand improvement. Valuations have since improved as demand has recovered, rising oil price has resulted in inventory gains and lower working capital has resulted in some debt reduction.

Figure 36: IOC P/BV (x) chart



BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-19A	Mar-20A	Mar-21F	Mar-22F	Mar-23F
Total Net Revenues	52,81,490	48,43,622	35,25,619	48,24,212	45,90,366
Gross Profit	8,60,522	5,79,281	7,88,091	7,63,850	8,28,345
Operating EBITDA	3,69,646	1,17,610	3,96,089	3,38,000	3,80,868
Depreciation And Amortisation	(85,074)	(1,23,702)	(1,01,943)	(1,03,144)	(1,09,950)
Operating EBIT	2,84,572	(6,092)	2,94,146	2,34,856	2,70,918
Financial Income/(Expense)	(48,880)	(65,787)	(35,052)	(59,360)	(59,276)
Pretax Income/(Loss) from Assoc.	13,844	13,661	8,673	10,561	10,043
Non-Operating Income/(Expense)	9,733	(13,552)	37,565	25,340	23,712
Profit Before Tax (pre-EI)	2,59,269	(71,770)	3,05,332	2,11,397	2,45,397
Exceptional Items					
Pre-tax Profit	2,59,269	(71,770)	3,05,332	2,11,397	2,45,397
Taxation	(86,531)	53,007	(1,00,064)	(53,723)	(61,618)
Exceptional Income - post-tax					
Profit After Tax	1,72,739	(18,763)	2,05,268	1,57,674	1,83,778
Minority Interests	1,029	9,832	(1,306)	2,053	(502)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	1,73,767	(8,931)	2,03,962	1,59,727	1,83,277
Recurring Net Profit	1,73,767	(8,931)	2,03,962	1,59,727	1,83,277
Fully Diluted Recurring Net Profit	1,73,767	(8,931)	2,03,962	1,59,727	1,83,277

Cash Flow

(Rs mn)	Mar-19A	Mar-20A	Mar-21F	Mar-22F	Mar-23F
EBITDA	3,69,646	1,17,610	3,96,089	3,38,000	3,80,868
Cash Flow from Invt. & Assoc.	9,733	(13,552)	37,565	25,340	23,712
Change In Working Capital	(1,57,059)	20,048	2,45,692	(9,334)	58,237
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	41,419	(50,704)	10,968	21	562
Other Operating Cashflow	(28,606)	(1,03,934)	1,075	733	405
Net Interest (Paid)/Received	(48,880)	(65,787)	(35,052)	(59,360)	(59,276)
Tax Paid	(86,531)	53,007	(1,00,064)	(53,723)	(61,618)
Cashflow From Operations	99,722	(43,312)	5,56,274	2,41,676	3,42,890
Capex	(2,66,881)	(3,13,832)	(2,50,258)	(2,76,109)	(2,68,395)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments	6,775	92,290	(4,489)	(6,000)	(1)
Other Investing Cashflow					
Cash Flow From Investing	(2,60,106)	(2,21,542)	(2,54,747)	(2,82,109)	(2,68,396)
Debt Raised/(repaid)	3,11,153	3,30,253	(2,09,698)	1,06,122	10,012
Proceeds From Issue Of Shares					
Shares Repurchased	(44,350)				
Dividends Paid	(1,16,568)	(58,023)	(96,401)	(70,694)	(89,974)
Preferred Dividends					
Other Financing Cashflow					
Cash Flow From Financing	1,50,235	2,72,230	(3,06,099)	35,428	(79,962)
Total Cash Generated	(10,150)	7,375	(4,572)	(5,005)	(5,468)
Free Cashflow To Equity	1,50,768	65,398	91,829	65,689	84,506
Free Cashflow To Firm	(1,11,505)	(1,99,068)	3,36,579	18,927	1,33,771

SOURCES: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-19A	Mar-20A	Mar-21F	Mar-22F	Mar-23F
Total Cash And Equivalents	1,23,290	1,44,326	1,48,427	1,53,983	1,58,558
Total Debtors	1,57,977	1,32,595	1,06,391	1,41,506	1,35,972
Inventories	7,71,265	6,70,108	5,77,436	7,74,608	7,56,884
Total Other Current Assets	3,50,930	3,04,413	1,83,178	1,85,166	1,87,193
Total Current Assets	14,03,463	12,51,442	10,15,432	12,55,262	12,38,607
Fixed Assets	16,21,445	18,11,575	19,59,890	21,32,855	22,91,300
Total Investments	3,26,633	2,34,343	2,38,832	2,44,832	2,44,833
Intangible Assets	10	10	16,606	16,606	16,606
Total Other Non-Current Assets					
Total Non-current Assets	19,48,089	20,45,928	22,15,328	23,94,293	25,52,739
Short-term Debt	5,35,593	6,98,974	3,54,051	4,48,776	4,56,788
Current Portion of Long-Term Debt					
Total Creditors	9,51,477	8,10,267	8,16,092	10,41,032	10,78,039
Other Current Liabilities					
Total Current Liabilities	14,87,070	15,09,241	11,70,143	14,89,808	15,34,827
Total Long-term Debt	4,32,058	5,98,929	7,34,154	7,45,551	7,47,551
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities					
Total Non-current Liabilities	4,32,058	5,98,929	7,34,154	7,45,551	7,47,551
Total Provisions	2,88,958	2,26,455	2,37,179	2,37,200	2,37,762
Total Liabilities	22,08,085	23,34,625	21,41,475	24,72,559	25,20,140
Shareholders Equity	11,24,692	9,53,979	10,79,375	11,69,303	12,63,174
Minority Interests	18,774	8,766	9,909	7,692	8,031
Total Equity	11,43,466	9,62,745	10,89,283	11,76,996	12,71,205

Key Ratios					
	Mar-19A	Mar-20A	Mar-21F	Mar-22F	Mar-23F
Revenue Growth	25.1%	(8.3%)	(27.2%)	36.8%	(4.8%)
Operating EBITDA Growth	(11.1%)	(68.2%)	236.8%	(14.7%)	12.7%
Operating EBITDA Margin	7.0%	2.4%	11.2%	7.0%	8.3%
Net Cash Per Share (Rs)	(89.44)	(125.65)	(102.36)	(113.31)	(113.91)
BVPS (Rs)	119.14	103.91	117.57	127.36	137.59
Gross Interest Cover	5.82	(0.09)	8.39	3.96	4.57
Effective Tax Rate	33.4%		32.8%	25.4%	25.1%
Net Dividend Payout Ratio	40.5%	(76.1%)	33.2%	34.4%	37.5%
Accounts Receivables Days	9.15	10.95	12.37	9.38	11.03
Inventory Days	60.97	61.69	83.17	60.77	74.29
Accounts Payables Days	74.35	75.40	108.42	83.47	102.80
ROIC (%)	9.5%	(0.2%)	10.9%	8.0%	8.8%
ROCE (%)	14.0%	0.9%	14.2%	10.8%	11.6%
Return On Average Assets	9.2%	(0.7%)	10.2%	7.4%	7.8%

SOURCES: INCRED RESEARCH, COMPANY REPORTS

India

ADD (no change)

Consensus ratings*:	Buy 35 Hold 4 Sell 0
Current price:	Rs262
Target price:	Rs285
Previous target:	Rs275
Up/downside:	8.8%
InCred Research / Consensus:	-10.1%
Reuters:	HPCL.NS
Bloomberg:	HPCL IN
Market cap:	US\$5,090m
	Rs3,73,707m
Average daily turnover:	US\$24.2m
	Rs1778.4m
Current shares o/s:	1,498.6m
Free float:	46.5%
*Source: Bloomberg	

Key changes in this note

- FY21F EPS decreased by 0.4%
- FY22F EPS decreased by 2.2%
- FY23F EPS decreased by 2.1%



Source: Bloomberg

Price	1M	3M	12M
Absolute (%)	15.8	17.2	38.1
Relative (%)	15.5	24.0	(9.2)

Major shareholders	% held
ONGC	53.5
HDFC Equity Fund	5.0
LIC	2.1

Analyst(s)



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GRMs will matter

- Despite pressure on auto fuel marketing margins, we expect 4QFY21F net profit to remain robust due to high inventory gains.
- We expect recovery in volumes and GRMs in FY22F/23F, assuming the current negative impact on economic activity due to Covid to be short-lived.
- We reiterate Add and roll forward our TP to Rs285 (1x Mar23F P/BV, 15% ROE in FY23F). Large off-balance sheet debt will likely keep valuations under check.

Inventory gains to drive 4QFY21F net profit

We expect HPCL standalone to report 4QFY21F net profit of Rs15.8bn. In view of state elections in Apr 2021, oil marketing companies (OMCs) like HPCL kept auto fuel prices largely unchanged in Mar 2021, which significantly depressed marketing margins (MMs) in 4QFY21F. In terms of marketing volumes, gasoline was better than expected, while diesel disappointed and jet fuel remained well below pre-Covid levels. The qoq recovery in gross refining margins (GRMs) in 4Q was also tepid (Singapore GRM at US\$1.8/bbl vs. US\$1.2/bbl in 3Q) resulting in poor underlying profitability. However, we expect reported profits to be supported by large inventory gains due to the sharp increase in global oil prices.

We assume relative normalisation of economic activity in FY22F/23F

We have considered inventory gains/losses only in FY21F, and not in FY22F/23F. Core FY21F profits (i.e., excluding inventory/forex gains) were significantly low as Covid impacted marketing volumes as well as GRMs. In view of recent revival in Covid cases, we have marginally cut our FY22F refining and marketing volumes, expecting the negative Covid impact to be short-lived. The key earnings driver remains improvement in GRMs which we forecast at US\$3/bbl/US\$5/bbl in FY22F/FY23F compared to US\$1.9/bbl in 4QFY21F. In our view, OMCs have focused on integrated margins, and the refining margin squeeze in FY21F has sought to be compensated by a record level of auto fuel MMs. As GRMs rise in FY22F/FY23F, we expect some moderation in MMs. Note that OMCs raised auto fuel prices and MMs in May 2021 after the declaration of state results.

Reiterate Add with a TP of Rs285

Despite HPCL being viewed as the best play on MMs among the OMCs, we believe GRMs will be the more critical profit driver. Over FY22F-FY23F, HPCL is commissioning large refining projects which will result in elevated capital cost charges. A positive bottomline impact is contingent on an improvement in the GRM cycle. HPCL has two JVs – Hindustan Mittal Energy (HMEL) and Rajasthan Refinery – which are executing large projects and have high debt which is not consolidated. The key risk is a sharp spurt in global oil prices.

Financial Summary

	Mar-19A	Mar-20A	Mar-21F	Mar-22F	Mar-23F
Revenue (Rsm)	27,54,734	26,90,915	19,88,836	27,67,451	24,50,381
Operating EBITDA (Rsm)	1,21,478	55,350	1,41,200	1,08,020	1,31,555
Net Profit (Rsm)	66,906	26,387	92,301	56,870	62,857
Core EPS (Rs)	43.9	17.3	61.1	39.1	44.1
Core EPS Growth	(7.3%)	(60.6%)	253.0%	(36.1%)	13.0%
FD Core P/E (x)	5.97	15.14	4.13	6.57	5.94
DPS (Rs)	15.9	9.8	20.0	14.0	14.0
Dividend Yield	7.34%	3.72%	7.92%	5.46%	5.34%
EV/EBITDA (x)	4.36	12.41	4.43	6.20	4.89
P/FCFE (x)	118.47	39.27	11.34	12.08	28.58
Net Gearing	75.3%	124.1%	95.9%	117.5%	116.1%
P/BV (x)	1.31	1.29	1.04	0.97	0.88
ROE	23.9%	8.6%	27.3%	15.1%	15.5%
% Change In Core EPS Estimates			(0.38%)	(2.17%)	(2.08%)
InCred Research/Consensus EPS (x)			53.39	43.72	48.03

SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS. PRICED AS AT 14 MAY 2021

GRMs will matter

Lower auto fuel marketing margins in 4QFY21F are likely to be compensated by virtually equivalent levels of inventory gains in our view.

Figure 37: HPCL standalone quarterly result trends (Rs m)

Rsm	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21F	yoy %	qoq %
EBITDA	-17,095	43,536	36,039	33,015	27,428	-260%	-17%
Interest	-3,374	-3,217	-2,604	-1,274	-2,255	-33%	77%
Depreciation	-8,114	-8,661	-8,683	-8,811	-9,447	16%	7%
Other income	4,241	5,626	8,168	8,648	5,599	32%	-35%
Profit before tax	-24,343	37,284	32,920	31,579	21,325	-188%	-32%
Tax	24,612	-9,146	-8,146	-8,032	-5,545	-123%	-31%
Net profit	269	28,138	24,775	23,546	15,781	5766%	-33%
EPS (Rs)	0.18	18.47	16.26	15.71	10.36	5766%	-34%
Operating data							
Refining throughput (mmt)	4.54	3.97	4.06	4.00	4.40	-3%	10%
HPCL reported GRM (US\$/bbl)	-1.23	0.04	5.11	1.87	4.90	-498%	162%
HPCL GRM ex-inventory (US\$/bbl)	9.39	-0.86	2.77	-0.95	1.90	-80%	-300%
Inventory gains/(loss)							
In refining	-25,840	2,010	5,230	6,160	7,119		
In marketing	-15,290	4,320	12,570	7,070	7,000		
EBITDA excl inventory/forex	37,033	37,206	18,239	19,785	13,309	-64%	-33%

SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Broadly gasoline volumes have shown some positive surprise while diesel has disappointed. Jet fuel volumes are still significantly below pre-Covid levels.

Figure 38: Transportation fuels marketing performance

	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21F	yoy %	qoq %
Gasoline sales (mmt)	1.73	1.19	1.71	1.95	1.90	9.8%	-2.6%
Diesel sales (mmt)	4.19	3.24	3.41	4.64	4.50	7.4%	-3.0%
Jet fuel sales (mmt)	0.18	0.04	0.08	0.12	0.14	-22.7%	15.9%
Gasoline market share	24.3%	23.7%	24.1%	24.3%	24.3%		
Diesel market share	21.2%	21.5%	21.5%	21.9%	21.9%		
Jet fuel market share	9.4%	10.3%	10.0%	10.3%	10.3%		

SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Commissioning of refining projects will lead to higher interest and depreciation costs over FY22F-23F. The exact impact on the bottomline will depend on the extent to which these refining projects contribute to higher GRMs. Hence improvement in GRM cycle is the key to better earnings.

Figure 39: HPCL standalone P&L (Rs m)

Y/E Mar	2018	2019	2020	2021F	2022F	2023F
EBITDA	1,06,719	1,20,209	49,941	1,39,070	1,05,890	1,29,425
Interest	-5,667	-7,259	-10,817	-9,350	-11,331	-23,979
Depreciation	-27,528	-30,126	-33,044	-35,602	-42,964	-49,566
Other income	18,495	10,563	9,647	28,041	17,027	17,767
Pre-tax profit	92,019	93,387	15,726	1,22,159	68,621	73,647
Tax	-28,449	-33,100	10,646	-30,784	-17,293	-18,559
Net profit	63,571	60,287	26,373	91,375	51,329	55,088
EPS (Rs)	41.7	39.6	17.3	60.5	35.3	38.7
Book value per share (Rs)	157.2	184.9	190.1	230.1	249.5	279.8
ROE	28.7%	23.1%	9.2%	28.7%	14.4%	14.5%
Net debt equity	62%	78%	130%	99%	122%	122%
Staff costs	28,585	29,385	31,935	36,500	38,325	40,241

SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

We have lowered our estimates on auto fuel margins in FY21F due to the price freeze implemented in Mar 2021, but raised our estimate of inventory gains on account of rising global oil prices.

Figure 40: HPCL standalone EBITDA working (Rs m)

Y/E Mar	2018	2019	2020	2021F	2022F	2023F
<u>Gross margins from all business segments</u>						
Refinery (excl inventory)	57,863	39,748	38,668	6,180	29,565	64,331
Auto fuels	56,162	83,613	77,181	1,01,103	97,934	90,947
LPG/kero marketing	25,180	26,961	28,777	30,048	31,200	32,411
Balance products/lubricants/pipeline	37,978	42,054	44,316	40,117	44,194	45,950
Sub total	1,77,184	1,92,375	1,88,942	1,77,449	2,02,892	2,33,639
Less: Labour cost	-28,585	-29,385	-31,935	-36,500	-38,325	-40,241
Less: other operational expenses	-50,389	-56,441	-64,536	-53,358	-58,678	-63,973
Sub total	98,210	1,06,549	92,471	87,591	1,05,890	1,29,425
<u>Plus: Non-operational items</u>						
Subsidy borne	0	0	0	0	0	0
Inventory in refining	5,790	7,410	-29,600	20,519		
Inventory in marketing	2,720	6,250	-12,930	30,960		
EBITDA	1,06,720	1,20,209	49,941	1,39,070	1,05,890	1,29,425

SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

In FY21F, HPCL has sought to compensate for poor core GRMs by raising auto fuel marketing margins to unsustainable levels. We believe GRMs in FY22F/23F will recover while marketing margins will moderate. The latest wave of Covid will result in some impact on refining volumes in FY22F.

Figure 41: HPCL assumptions

Y/E Mar	2019	2020	2021F	2022F	2023F
HPCL crude throughput (mmt)	18.44	17.18	16.42	18.00	23.50
HPCL reported GRM (US\$/bbl)	5.01	1.02	3.00	3.00	5.00
HPCL ex-inventory GRM (US\$/bbl)	4.81	2.32	0.70	3.00	5.00
Auto fuel volumes (mmt)	25.08	24.95	22.54	25.64	26.68
Auto fuels margins (Rs/kl)	2,633	2,439	3,531	3,000	2,676
Brent crude oil, US\$/bbl	70.00	61.00	44.90	60.00	55.00
Rupee dollar rate year average	69.91	70.89	74.23	75.00	75.00
HMEL refinery throughput (mmt)	12.24	12.20	10.08	11.79	12.73
HMEL GRM (US\$/bbl)	10.23	6.22	7.00	8.00	9.00

SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 42: Change in estimates for HPCL

Year to 31 Mar	Old			New			Change %		
	2021F	2022F	2023F	2021F	2022F	2023F	2021F	2022F	2023F
HPCL crude throughput (mmt)	16.40	19.00	24.50	16.42	18.00	23.50	0.1%	-5.3%	-4.1%
HPCL GRM (US\$/bbl)	2.80	3.00	5.00	3.00	3.00	5.00	7.1%	0.0%	0.0%
Auto fuel volumes (mmt)	22.27	25.17	26.13	22.54	25.64	26.68	1.2%	1.9%	2.1%
Auto fuels margins (Rs/kl)	3,831	3,000	2,676	3,531	3,000	2,676	-7.8%	0.0%	0.0%
Brent crude oil, US\$/bbl	43.00	50.00	50.00	44.90	60.00	55.00	4.4%	20.0%	10.0%
Rupee US dollar average	75.00	75.00	75.00	74.23	75.00	75.00	-1.0%	0.0%	0.0%
HMEL refinery throughput (mmt)	11.12	12.73	12.73	10.08	11.79	12.73	-9.4%	-7.4%	0.0%
HMEL GRM (US\$/bbl)	7.00	8.00	9.00	7.00	8.00	9.00	0.0%	0.0%	0.0%
EBITDA (Rsm)	1,40,722	1,08,678	1,33,290	1,41,200	1,08,020	1,31,555	0.3%	-0.6%	-1.3%
Net profit (Rs m)	92,651	58,133	64,191	92,301	56,870	62,857	-0.4%	-2.2%	-2.1%
EPS (Rs)	61.37	39.93	45.08	61.13	39.06	44.15	-0.4%	-2.2%	-2.1%

SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

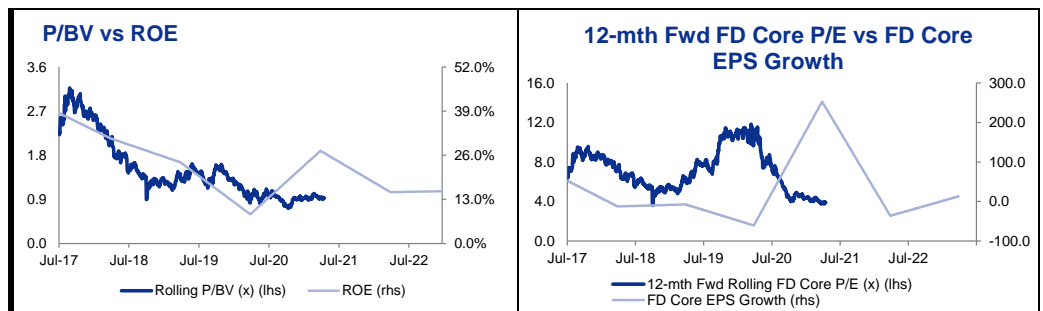
Valuations in 2020 dropped to trough levels due to the sharp downturn in refining, large inventory losses and no clarity on demand improvement. Valuations have since improved as demand has recovered, rising oil price has resulted in inventory gains, and lower working capital has resulted in some debt reduction.

Figure 43: HPCL P/BV (x) chart



SOURCES: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-19A	Mar-20A	Mar-21F	Mar-22F	Mar-23F
Total Net Revenues	27,54,734	26,90,915	19,88,836	27,67,451	24,50,381
Gross Profit	2,12,746	1,51,614	2,29,520	2,04,600	2,34,989
Operating EBITDA	1,21,478	55,350	1,41,200	1,08,020	1,31,555
Depreciation And Amortisation	(30,853)	(33,699)	(35,600)	(42,962)	(49,564)
Operating EBIT	90,625	21,651	1,05,600	65,058	81,991
Financial Income/(Expense)	(7,856)	(11,389)	(9,229)	(11,211)	(23,859)
Pretax Income/(Loss) from Assoc.	9,297	(4,582)	174	4,789	7,016
Non-Operating Income/(Expense)	8,326	8,062	26,540	15,525	16,266
Profit Before Tax (pre-EI)	1,00,392	13,743	1,23,084	74,162	81,415
Exceptional Items					
Pre-tax Profit	1,00,392	13,743	1,23,084	74,162	81,415
Taxation	(33,486)	12,644	(30,784)	(17,292)	(18,559)
Exceptional Income - post-tax					
Profit After Tax	66,906	26,387	92,301	56,870	62,857
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	66,906	26,387	92,301	56,870	62,857
Recurring Net Profit	66,906	26,387	92,301	56,870	62,857
Fully Diluted Recurring Net Profit	66,906	26,387	92,301	56,870	62,857

Cash Flow

(Rs mn)	Mar-19A	Mar-20A	Mar-21F	Mar-22F	Mar-23F
EBITDA	1,21,478	55,350	1,41,200	1,08,020	1,31,555
Cash Flow from Invt. & Assoc.	8,326	8,062	26,540	15,525	16,266
Change In Working Capital	(27,119)	4,395	60,022	(16,335)	22,789
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	4,223	(22,385)	(1,933)	(2,039)	(2,029)
Net Interest (Paid)/Received	(7,856)	(11,389)	(9,229)	(11,211)	(23,859)
Tax Paid	(27,481)	(1,670)	(30,539)	(17,155)	(18,411)
Cashflow From Operations	71,571	32,364	1,86,061	76,806	1,26,312
Capex	(1,17,283)	(1,81,917)	(91,555)	(89,148)	(87,998)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments	(13,311)	1,629	(27,979)	(58,104)	(67,332)
Other Investing Cashflow					
Cash Flow From Investing	(1,30,593)	(1,80,287)	(1,19,534)	(1,47,252)	(1,55,329)
Debt Raised/(repaid)	62,395	1,58,100	(32,912)	1,01,361	42,083
Proceeds From Issue Of Shares					
Shares Repurchased			(15,050)	(6,450)	
Dividends Paid	(16,533)	(17,251)	(18,495)	(29,116)	(19,934)
Preferred Dividends					
Other Financing Cashflow					
Cash Flow From Financing	45,862	1,40,849	(66,457)	65,794	22,149
Total Cash Generated	(13,160)	(7,075)	70	(4,652)	(6,868)
Free Cashflow To Equity	3,373	10,176	33,615	30,915	13,065
Free Cashflow To Firm	(51,166)	(1,36,535)	75,756	(59,235)	(5,159)

SOURCES: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-19A	Mar-20A	Mar-21F	Mar-22F	Mar-23F
Total Cash And Equivalents	53,023	55,680	55,680	55,680	55,680
Total Debtors	56,674	39,342	34,903	48,571	42,997
Inventories	2,04,436	1,93,260	1,81,802	2,48,395	2,34,852
Total Other Current Assets	1,51,240	1,26,981	69,110	70,060	71,029
Total Current Assets	4,65,373	4,15,263	3,41,495	4,22,706	4,04,559
Fixed Assets	5,14,907	6,63,125	7,19,080	7,65,266	8,03,699
Total Investments	92,137	90,508	1,18,487	1,76,591	2,43,923
Intangible Assets	167	167	167	167	167
Total Other Non-Current Assets					
Total Non-current Assets	6,07,210	7,53,799	8,37,733	9,42,023	10,47,789
Short-term Debt					
Current Portion of Long-Term Debt					
Total Creditors	3,83,613	3,33,805	3,20,059	3,84,936	3,89,578
Other Current Liabilities					
Total Current Liabilities	3,83,613	3,33,805	3,20,059	3,84,936	3,89,578
Total Long-term Debt	2,81,915	4,40,015	4,07,103	5,08,464	5,50,547
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities					
Total Non-current Liabilities	2,81,915	4,40,015	4,07,103	5,08,464	5,50,547
Total Provisions	1,03,049	85,436	85,680	85,817	85,965
Total Liabilities	7,68,577	8,59,256	8,12,843	9,79,217	10,26,089
Shareholders Equity	3,04,007	3,09,806	3,66,385	3,85,512	4,26,258
Minority Interests					
Total Equity	3,04,007	3,09,806	3,66,385	3,85,512	4,26,258

Key Ratios					
	Mar-19A	Mar-20A	Mar-21F	Mar-22F	Mar-23F
Revenue Growth	25.5%	(2.3%)	(26.1%)	39.1%	(11.5%)
Operating EBITDA Growth	13.4%	(54.4%)	155.1%	(23.5%)	21.8%
Operating EBITDA Margin	4.4%	2.1%	7.1%	3.9%	5.4%
Net Cash Per Share (Rs)	(150.21)	(252.22)	(241.72)	(318.01)	(347.56)
BVPS (Rs)	199.50	203.31	252.02	270.76	299.38
Gross Interest Cover	11.54	1.90	11.44	5.80	3.44
Effective Tax Rate	33.4%		25.0%	23.3%	22.8%
Net Dividend Payout Ratio	43.8%	56.3%	32.7%	35.8%	31.7%
Accounts Receivables Days	7.46	6.51	6.81	5.50	6.82
Inventory Days	28.04	28.58	38.91	30.63	39.81
Accounts Payables Days	50.93	51.56	67.83	50.20	63.80
ROIC (%)	10.9%	2.4%	11.5%	6.5%	8.0%
ROCE (%)	16.5%	4.1%	16.2%	9.1%	9.9%
Return On Average Assets	7.3%	3.1%	8.4%	5.1%	5.7%

SOURCES: INCRED RESEARCH, COMPANY REPORTS

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Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2020, Anti-Corruption 2020

ADVANC – Excellent, Certified, **AMATA** – Excellent, Certified, **ANAN** – Excellent, n/a, **AOT** – Excellent, n/a, **AP** – Excellent, Certified, **ASP** – Excellent, n/a, **AU** – Good, n/a, **BAM** – Very Good, Certified, **BAY** – Excellent, Certified, **BBL** – Very Good, Certified, **BCH** – Good, Certified, **BCP** – Excellent, Certified, **BCPG** – Excellent, Certified, **BDMS** – Excellent, n/a, **BEAUTY** – Good, n/a, **BH** – Good, n/a, **BJC** – Very Good, n/a, **BLA** – Excellent, Certified, **BTS** – Excellent, Certified, **CBG** – Very Good, n/a, **CCET** – n/a, n/a, **CENTEL** – Excellent, Certified, **CHAYO** – Very Good, n/a, **CHG** – Very Good, n/a, **CK** – Excellent, n/a, **COM7** – Very Good, Certified, **CPALL** – Excellent, Certified, **CPF** – Excellent, Certified, **CPN** – Excellent, Certified, **CPNREIT** – n/a, n/a, **CRC** – Very Good, n/a, **DELTA** – Excellent, Certified, **DDD** – Very Good, n/a, **DIF** – n/a, n/a, **DOHOME** – Very Good, n/a, **DREIT** – n/a, n/a, **DTAC** – Excellent, Certified, **ECL** – Excellent, Certified, **EGCO** – Excellent, Certified, **EPG** – Excellent, Certified, **ERW** – Very Good, Certified, **GFPT** – Excellent, Certified, **GGC** – Excellent, Certified, **GLOBAL** – Very Good, n/a, **HANA** – Excellent, Certified, **HMPRO** – Excellent, Certified, **HUMAN** – Good, n/a, **ICHI** – Excellent, Certified, **III** – Excellent, n/a, **INTUCH** – Excellent, Certified, **IRPC** – Excellent, Certified, **ITD** – Very Good, n/a, **IVL** – Excellent, Certified, **JASIF** – n/a, n/a, **JKN** – Excellent, Declared, **JMT** – Very Good, Declared, **KBANK** – Excellent, Certified, **KCE** – Excellent, Certified, **KEX** – n/a, n/a, **KKP** – Excellent, Certified, **KSL** – Excellent, Certified, **KTB** – Excellent, Certified, **KTC** – Excellent, Certified, **LH** – Excellent, n/a, **LPN** – Excellent, Certified, **M** – Very Good, Certified, **MAKRO** – Excellent, Certified, **MC** – Excellent, Certified, **MEGA** – Very Good, n/a, **MINT** – Excellent, Certified, **MTC** – Excellent, Certified, **NETBAY** – Very Good, n/a, **NRF** – n/a, n/a, **OR** – n/a, n/a, **ORI** – Excellent, Certified, **OSP** – Very Good, n/a, **PLANB** – Excellent, Certified, **PRINC** – Very Good, Certified, **PR9** – Excellent, n/a, **PSH** – Excellent, Certified, **PTT** – Excellent, Certified, **PTTEP** – Excellent, Certified, **PTTGC** – Excellent, Certified, **QH** – Excellent, Certified, **RBF** – Good, n/a, **RS** – Excellent, n/a, **RSP** – Good, n/a, **S** – Excellent, n/a, **SAK** – n/a, n/a, **SAPPE** – Very Good, Certified, **SAWAD** – Very Good, n/a, **SCB** – Excellent, Certified, **SCC** – Excellent, Certified, **SCGP** – n/a, n/a, **SHR** – Very Good, n/a, **SIRI** – Excellent, Certified, **SPA** – Very Good, n/a, **SPALI** – Excellent, Declared, **SPRC** – Excellent, Certified, **SSP** – Good, Declared, **STEC** – n/a, n/a, **SVI** – Excellent, Certified, **SYNEX** – Very Good, n/a, **TCAP** – Excellent, Certified, **THANI** – Excellent, Certified, **TISCO** – Excellent, Certified, **TKN** – Very Good, n/a, **TMB** – Excellent, Certified, **TOP** – Excellent, Certified, **TRUE** – Excellent, Certified, **TU** – Excellent, Certified, **TVO** – Excellent, Certified, **VGI** – Excellent, Certified, **WHA** – Excellent, Certified, **WHART** – n/a, n/a, **WICE** – Excellent, Certified, **WORK** – Good, n/a.

- CG Score 2020 from Thai Institute of Directors Association (IOD)

- Companies participating in Thailand's Private Sector Collective Action Coalition Against Corruption programme (Thai CAC) under Thai Institute of Directors (as of January 30, 2021) are categorised into: companies that have declared their intention to join CAC, and companies certified by CAC.

Recommendation Framework

Stock Ratings

Definition:

Add	The stock's total return is expected to exceed 10% over the next 12 months.
Hold	The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
Reduce	The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

Overweight	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings

Definition:

Overweight	An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
Neutral	A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
Underweight	An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.