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SECTOR: REFINERIES

GMR's throughput to be boost by 65% because of refinery upgrades. The company is focused on increasing margins, the earning visibility is high, & the valuations of the company are attractive.

### Key Takeaways & Snapshot:

- The Company is planning a capex of INR 558bn over FY16-21, which includes approx INR 257bn for refineries, around INR 262bn for marketing, and the remaining for renewable, R&D and JV projects. For the next two years, capex will be funded through internal accruals, the company could take loan in later years as refinery capex will be back-ended.
- Refinery capex of INR 257bn includes INR 42bn for Euro VI upgradation and brownfield expansions, at Vizag from 8.3mmt to 15mmt (approx INR 200bn, up from INR 170bn) along with upgradation at Mumbai from 6.5mmt to 9.5mmt (INR 42bn) and JV Bhatinda refinery from 9mmt to 11.3mt (INR 24bn).
- Expects overall GRM to improve by around USD 1.5-2/bbl, Vizag is expected to complete by April 2020 and expand GRM by USD 4-5/bbl, Mumbai is expected to be completed in three years and expand GRM by USD 1-1.5/bbl and Bhatinda by Jun-17.

**Bhatinda Refinery: to be Profitable in FY17, GMR to clock Double Digits:** Bhatinda refinery (HPCL stake 49%) is expected to continue posting profits in FY17 (FY16 PAT was around INR 18bn) even at the current petroleum product cracks, and expects GRM to be in double-digits.

**Marketing Capex increased significantly, margins are above Regulated era:** The updated capex plans place high emphasis on marketing, the five-year marketing capex are significantly high at INR 262bn (approx 47% of total capex). Management has announced plans to set up 3 new LPG plants, 3 POL depots and Lube Blending Plants at Mumbai and Kasna (UP). Marketing margins remain strong at INR 1.7/1.6 per ltr for petrol/diesel (v/s regulated era of INR1.4/ltr). Volumes remain strong with FY16 POL growth at 9.3%.

**Marketing Lube give earning stability, Dynamic pricing had already started:** Dynamic pricing (based on location, demand and competition) is already underway in some test markets, and could be rolled out on a pan-India basis. Dynamic/differential pricing will help the company to sweat the marketing assets better and improve profitability further. While refining will continue to be cyclical, marketing (including pipelines) gives earnings stability and lubes business also contributes meaningfully (10-20%).

### Stock Summary:

Particular	
CMP	1029.05
<b>Target Price</b>	<b>1359</b>
Potential Upside	32%
O/S No of Shares (Cr.)	33.86
Market Cap. (Cr.)	41551.26
Equity Cap. (Cr.)	339.01
52 Week High	1277.60
52 Week Low	635.15
Face Value	10
NSE Code	HINDPETRO
BSE Code	500104

### Share Holding Pattern

Particular	Mar-16
Promoters	51.11%
Public (FIIs+DIIs)	48.89%
Others	0.00%
<b>Total</b>	<b>100%</b>

### Stock Performance:



### Valuation & Outlook:

Of the three OMCs, HPCL's earnings are more sensitive to a change in the marketing margin, given its higher ratio of marketing-to-refining volume. On SA basis, HPCL trades at 7.3x FY18E EPS of INR 140.6 and 1.4x FY18E BV. On a consolidated basis, HPCL trades at 6.1x FY18 EPS of INR 169. We value HPCL at 5.5x for refining and 8x for marketing to arrive at a fair value of INR 1,359, implying a 32% upside. Dividend yield is attractive at around 3-4%. Looking at the performance and future plans we recommend a BUY on the stock.

### Key Assumptions:

Particular	FY12	FY13	FY14	FY15	FY16	FY17E	FY18E
Exchange Rate (INR/USD)	47.9	54.5	60.6	61.1	65.5	68.0	70.0
Brent Crude (USD/bbl)	114.5	110.6	107.8	86.0	47.6	50.0	55.0
Market Sales (MMT)	29.5	30.3	31.0	32.0	34.2	36.3	38.3
YoY (%)	9.1%	2.8%	2.1%	3.2%	7.1%	6.0%	5.5%
<b>GRM (USD/bbl)</b>							
HPCL Blended GRM	5.20	2.08	3.43	2.84	6.67	5.50	6.00
Reuters Singapore GRM	8.17	7.70	5.62	6.36	7.49	6.25	7.00
Prem/(disc)	(2.96)	(5.62)	(2.19)	(3.52)	(0.82)	(0.75)	(1.00)
<b>Refining capacity utilization (%)</b>	99%	98%	95%	101%	106%	109%	109%
<b>Refinery throughput (mmt)</b>							
<b>Total Refinery throughput (MMT)</b>	16.1	15.8	15.4	16.4	17.2	17.7	17.7
<b>Under recoveries Sharing (INRb)</b>							
<b>Net sharing</b>	0.1	2.3	4.8	5.0	0.1	-	-
<b>Net sharing (%)</b>	0%	1%	1%	3%	0%	0%	0%

### Valuation Ratios:

Particular	2015	2016	2017E	2018E
P/E	12.7	9.0	7.9	7.3
Cash P/E	7.4	5.3	4.8	4.4
Price / Book Value	2.2	1.9	1.6	1.4
EV/Sales	0.2	0.2	0.2	0.2
EV/EBITDA	8.3	5.6	4.8	4.6
Dividend Yield (%)	2.4	3.4	3.1	4.1

## Financial statements:

## Income Statement:

Particular (INR mn)	2012	2013	2014	2015	2016	2017E	2018E
<b>Net Sales</b>	<b>1,781,392</b>	<b>2,065,293</b>	<b>2,231,454</b>	<b>2,063,804</b>	<b>1,792,811</b>	<b>1,825,129</b>	<b>1,926,920</b>
Change (%)	36.1	15.9	8.0	-7.5	-13.1	1.8	5.6
<b>EBITDA</b>	<b>34,082</b>	<b>39,424</b>	<b>52,081</b>	<b>54,176</b>	<b>76,168</b>	<b>85,916</b>	<b>94,929</b>
EBITDA Margin (%)	1.9	1.9	2.3	2.6	4.2	4.7	4.9
Depreciation	17,129	19,315	21,884	19,712	26,668	28,925	31,525
<b>EBIT</b>	<b>16,953</b>	<b>20,109</b>	<b>30,197</b>	<b>34,465</b>	<b>49,500</b>	<b>56,992</b>	<b>63,404</b>
Interest	16,977	18,377	15,046	7,066	6,401	5,536	5,320
Other Income	12,222	12,300	11,004	14,142	14,282	14,069	13,045
Extraordinary items	-5	714	0	0	0	0	0
<b>PBT</b>	<b>12,192</b>	<b>14,746</b>	<b>26,155</b>	<b>41,541</b>	<b>57,381</b>	<b>65,525</b>	<b>71,129</b>
Tax	3,077	5,699	8,817	14,209	18,753	21,623	23,473
Tax Rate (%)	25.2	38.6	33.7	34.2	32.7	33.0	33.0
<b>Reported PAT</b>	<b>9,115</b>	<b>9,047</b>	<b>17,338</b>	<b>27,333</b>	<b>38,627</b>	<b>43,902</b>	<b>47,657</b>
<b>Adjusted PAT</b>	<b>9,115</b>	<b>9,047</b>	<b>17,338</b>	<b>27,333</b>	<b>38,627</b>	<b>43,902</b>	<b>47,657</b>
Change (%)	-40.8	-0.7	91.6	57.6	41.3	13.7	8.6

## Balance Sheet:

Particular (INR mn)	2012	2013	2014	2015	2016	2017E	2018E
Share Capital	3,390	3,390	3,390	3,390	3,390	3,390	3,390
Reserves	127,835	133,874	146,732	156,831	181,775	213,103	244,022
<b>Net Worth</b>	<b>131,225</b>	<b>137,264</b>	<b>150,122</b>	<b>160,221</b>	<b>185,165</b>	<b>216,493</b>	<b>247,412</b>
Debt	298,312	324,583	319,301	170,556	145,220	140,000	140,000
Deferred Tax	30,853	35,984	39,084	41,036	48,105	54,657	61,770
<b>Total Capital Employed</b>	<b>460,390</b>	<b>497,830</b>	<b>508,506</b>	<b>371,813</b>	<b>378,490</b>	<b>411,151</b>	<b>449,182</b>
Gross Fixed Assets	334,590	370,062	424,668	481,749	541,493	615,493	645,493
Less: Acc Depreciation	126,094	144,575	165,545	191,121	217,789	246,713	278,238
<b>Net Fixed Assets</b>	<b>208,496</b>	<b>225,487</b>	<b>259,122</b>	<b>290,628</b>	<b>323,705</b>	<b>368,780</b>	<b>367,255</b>
Capital WIP	44,445	51,729	45,856	34,744	30,000	8,000	58,000
Investments	103,705	106,269	108,598	112,415	109,947	115,694	115,694
<b>Current Assets</b>	<b>354,427</b>	<b>378,962</b>	<b>362,204</b>	<b>237,719</b>	<b>241,865</b>	<b>253,891</b>	<b>251,486</b>
Inventory	194,545	164,387	187,754	129,723	127,091	135,664	141,582
Debtors	35,652	49,350	54,660	36,031	42,296	43,058	45,459
Cash & Bank	2,264	1,471	347	171	1,483	11,473	750
Loans & Adv, Others	121,967	163,754	119,444	71,796	70,995	63,695	63,695
<b>Curr Liabs &amp; Provns</b>	<b>250,683</b>	<b>264,617</b>	<b>267,275</b>	<b>303,693</b>	<b>327,027</b>	<b>335,214</b>	<b>343,253</b>
Curr. Liabilities	230,847	241,622	243,978	273,903	305,459	311,490	317,156
Provisions	19,836	22,995	23,296	29,790	21,568	23,725	26,097
<b>Net Current Assets</b>	<b>103,744</b>	<b>114,345</b>	<b>94,930</b>	<b>-65,974</b>	<b>-85,162</b>	<b>-81,324</b>	<b>-91,767</b>
<b>Total Assets</b>	<b>460,390</b>	<b>497,830</b>	<b>508,506</b>	<b>371,813</b>	<b>378,490</b>	<b>411,151</b>	<b>449,182</b>

## Cashflow Statement:

Particular (INR mn)	2012	2013	2014	2015	2016	2017E	2018E
Adjusted EBITDA	34,082	39,424	52,081	54,176	76,168	85,916	94,929
Non cash opr. exp (inc)	16,632	14,859	9,322	14,142	14,282	14,069	13,045
(Inc)/Dec in Wkg. Cap.	-27,301	-30,945	21,121	124,486	20,500	6,152	-280
Tax Paid	-2,715	-1,072	-3,668	-7,622	-11,685	-15,071	-16,360
Other operating activities	-5,407	-10,771	-1,556	-6,772	-5,536	-6,467	-6,437
<b>CF from Op. Activity</b>	<b>15,291</b>	<b>11,496</b>	<b>77,301</b>	<b>178,411</b>	<b>93,729</b>	<b>84,600</b>	<b>84,897</b>
(Inc)/Dec in FA & CWIP	-41,359	-36,807	-41,358	-41,762	-55,000	-52,000	-80,000
<b>Free cash flows</b>	<b>-26,068</b>	<b>-25,312</b>	<b>35,943</b>	<b>136,649</b>	<b>38,729</b>	<b>32,600</b>	<b>4,897</b>
(Pur)/Sale of Invt	6,378	-2,404	-1,297	4,161	2,468	-5,748	0
Others	3,579	15,383	10,289	-3,396	5,536	6,467	6,437
<b>CF from Inv. Activity</b>	<b>-31,401</b>	<b>-23,828</b>	<b>-32,365</b>	<b>-40,997</b>	<b>-46,996</b>	<b>-51,281</b>	<b>-73,563</b>
Inc/(Dec) in Net Worth	0	0	0	0	0	0	0
Inc / (Dec) in Debt	37,919	37,072	-25,648	-123,807	-25,336	-5,220	0
Interest Paid	-14,836	-22,187	-17,045	-7,647	-6,401	-5,536	-5,320
Divd Paid (incl Tax) & Others	-5,509	-3,344	-3,367	-6,136	-13,684	-12,573	-16,738
<b>CF from Fin. Activity</b>	<b>17,574</b>	<b>11,540</b>	<b>-46,060</b>	<b>-137,590</b>	<b>-45,421</b>	<b>-23,329</b>	<b>-22,058</b>
<b>Inc/(Dec) in Cash</b>	<b>1,464</b>	<b>-793</b>	<b>-1,124</b>	<b>-176</b>	<b>1,312</b>	<b>9,990</b>	<b>-10,723</b>
<b>Add: Opening Balance</b>	<b>800</b>	<b>2,264</b>	<b>1,471</b>	<b>347</b>	<b>171</b>	<b>1,483</b>	<b>11,473</b>
<b>Closing Balance</b>	<b>2,264</b>	<b>1,471</b>	<b>347</b>	<b>171</b>	<b>1,483</b>	<b>11,473</b>	<b>750</b>

**Ratios:**

Particular (INR mn)	2012	2013	2014	2015	2016	2017E	2018E
<b>Basic (INR)</b>							
EPS	26.9	26.7	51.1	80.6	113.9	129.5	140.6
Cash EPS	77.4	83.7	115.7	138.8	192.6	214.8	233.6
Book Value	387.1	404.9	442.8	472.6	546.2	638.6	729.8
DPS	8.5	8.5	15.5	24.5	34.5	31.7	42.2
Payout (incl. Div. Tax.)	37.0	37.3	35.5	35.6	35.4	28.6	35.1
<b>Profitability Ratios (%)</b>							
RoE	7.1	6.7	12.1	17.6	22.4	21.9	20.5
RoCE	5.0	4.2	5.4	7.3	11.4	12.1	11.9
RoIC	4.5	3.8	5.8	7.8	14.4	14.9	15.4
<b>Turnover Ratios (%)</b>							
Asset Turnover (x)	5.6	5.9	5.6	4.6	3.5	3.2	3.1
Debtors (No. of Days)	6	8	9	8	8	9	8
<b>Leverage Ratios (%)</b>							
Net Debt/Equity (x)	2.3	2.4	2.1	1.1	0.8	0.6	0.6

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