INSTITUTIONAL RESEARCH

HSIE Results Daily

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- **Bharat Petroleum Corporation:** We maintain our REDUCE rating on Bharat Petroleum (BPCL), with a target price of INR 550, owing to the risk of (1) lower auto-fuel marketing margins and (2) moderation in refining margins. Q4FY24 EBITDA stood at INR 92.1bn and reported PAT at INR 42.2bn, coming in below our estimate. Impairment loss of INR 18bn, lower refining margins, higher other expenses and inventory loss impacted earnings. This was partially offset by higher-than-expected gross marketing margin and higher crude throughput. Adjusting for impairment loss, PAT stood at INR 60bn (-23% YoY, +77% QoQ).
- **Eicher Motors:** Eicher's Q4 PAT surpassed estimates, attributed to better-than-expected margins at both RE and VECV. Since Harley Davidson (in collaboration with Hero MotoCorp) and Triumph (in collaboration with Bajaj Auto) launched their models at fiercely competitive and comparable price points to RE, competition in the 250–500cc sector has intensified. The competitive aggression will likely prompt RE to swiftly reconsider its pricing and branding strategy, potentially leading to margin pressure. Eicher has planned 20-24 new models in the medium term, which will likely increase marketing expenses and further strain margins. While RE has performed well thus far, we expect it to be impacted as competitors ramp up production in the coming quarters. Reiterate REDUCE with a revised price target of INR 3,734 (from INR 3,597).
- **Hindustan Petroleum Corporation:** Our REDUCE rating on Hindustan Petroleum Corporation (HPCL) with a price target of INR 450 is premised on (1) the risk of lower auto-fuel marketing margins, (2) moderation in refining margins, and (3) elevated debt levels given high capex cycle. Q4FY24 EBITDA came in at INR 48bn (flat YoY, +2.2x QoQ), while PAT came in at INR 28bn (-12% YoY, +5.4x QoQ), below our estimate, owing to lower-than-expected gross refining margins (GRMs), inventory loss, higher-than-expected other expenses, depreciation and interest cost; however, this was offset by higher crude throughput, market sales volume and gross marketing margins.
- **Mahanagar Gas:** Our BUY recommendation on Mahanagar Gas (MGL) with a target price of INR 1,570 is premised on (1) a pick-up in volume growth, (2) robust margin, and (3) attractive valuation. Q4FY24 EBITDA, at INR 3.9bn (+1% YoY, -12% QoQ), came broadly in line; however APAT at INR 2.7bn (-1% YoY, -16% QoQ), came below expectation, owing to higher-than-expected interest cost and depreciation and lower other income. Volumes stood at 3.78mmscmd (+12% YoY, +3% QoQ), which came above our estimate.

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Bharat Petroleum Corporation

Marketing segment supports earnings

We maintain our REDUCE rating on Bharat Petroleum (BPCL), with a target price of INR 550, owing to the risk of (1) lower auto-fuel marketing margins and (2) moderation in refining margins. Q4FY24 EBITDA stood at INR 92.1bn and reported PAT at INR 42.2bn, coming in below our estimate. Impairment loss of INR 18bn, lower refining margins, higher other expenses and inventory loss impacted earnings. This was partially offset by higher-than-expected gross marketing margin and higher crude throughput. Adjusting for impairment loss, PAT stood at INR 60bn (-23% YoY, +77% QoQ).

- **Refining:** BPCL's reported crude throughput, including the Bina refinery, was at 10.4mmt (-3% YoY, +5% QoQ), above our estimate. The overall GRM stood at USD 12.5/bbl, with the Mumbai refinery GRM at ~USD 9/bbl, the Kochi refinery GRM at USD 12.8/bbl and the Bina refinery GRM at USD 18.7/bbl. We expect the GRMs to moderate going ahead as new capacities come on stream. We estimate GRMs for FY25/26E at USD 8.4/8.7 per bbl.
- **Marketing:** Domestic marketing sales volume was at 13.2mmt (+2% YoY, +2% QoQ). The blended gross marketing margin for Q4 stood at INR 6/lit, (+91% YoY, +62% QoQ), which came above estimates, supported likely by robust gross margins for petrol, recovery in diesel gross margins and strong margins for other products. We factor blended gross marketing margins (for all petroleum products) of INR 4.6/4.6 per lit for FY25/26E respectively.
- **Con call takeaways:** (1) BPCL's gross debt in Q4 stood at INR 188bn, down 48% YoY, however increased 17% QoQ. (2) The company has guided a capex of INR 150-164bn for FY25 and INR 160-200bn for FY26; BPCL has a planned capex of ~INR 1.7trn for the next five years. (3) The share of Russian crude in FY24 stood at ~39%; guided to remain at similar levels in FY25. (4) BPCL's refining capacity is expected to increase to 45mtpa from 35mtpa currently. (5) The shutdowns at the Mumbai and Kochi refineries are being planned for August and September respectively. (6) BPCL has taken an impairment loss of INR 18bn in Q4 towards its investment in Bharat PetroResources Limited (BPRL); the accumulated impairment loss in BPRL in FY24 is at INR 52bn. (7) BPCL recommended a final dividend of INR 21/sh. The company has also recommended an issue of bonus shares in the ratio of 1:1.
- **Change in estimates:** We cut our FY25/26 EPS estimates by 8.8/8.8% to INR 50.2/55.2, to factor in lower refining margins, higher costs, lower other income and lower gross marketing margins. We have increased our capex assumption to align with management guidance. We also roll forward our target price to FY26, delivering a revised target price of INR 550/sh.
- **SOTP-based valuation: Our target price comes to INR 550/sh (5.5x Mar-26E EV/e for refining, marketing and pipeline businesses, and INR 145/sh for other investments). The stock is currently trading at 11.2x on Mar-26E EPS.**

Standalone financial summary

YE March (INR bn)	Q4 FY24	Q3 FY24	QoQ (%)	Q4 FY23	YoY (%)	FY22*	FY23*	FY24P*	FY25E*	FY26E*
Revenues	1,166	1,155	0.9	1,181	(1.3)	3,468	4,732	4,481	4,802	5,108
EBITDA	92	62	48.0	112	(17.4)	191	109	441	204	212
APAT	60	34	77.3	78	(23.2)	117	21	269	107	118
AEPS (INR)	28.3	16.0	77.3	36.8	(23.2)	54.9	10.0	126.1	50.2	55.2
P/E (x)						11.3	61.8	4.9	12.3	11.2
EV/EBITDA (x)						9.2	16.7	3.7	8.2	8.1
RoE (%)						22.2	4.0	41.6	14.0	14.4

Source: Company, HSIE Research | *Consolidated

REDUCE

CMP *(as on 10 May 2024)*	INR 619
Target Price	INR 550
NIFTY	22,055

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	INR 500	INR 550
EPS %	FY25E	FY26E
	-8.8%	-8.8%

KEY STOCK DATA	
Bloomberg code	BPCL IN
No. of Shares (mn)	2,169
MCap (INR bn) / ($ mn)	1,342/16,072
6m avg traded value (INR mn)	5,557
52 Week high / low	INR 688/331

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	0.7	61.1	66.2
Relative (%)	(0.8)	49.1	48.9

SHAREHOLDING PATTERN (%)	Dec-23	Mar-24
Promoters	52.98	52.98
FIs & Local MFs	22.13	21.29
FPIs	14.21	16.80
Public & Others	10.37	8.93
Pledged Shares	0.00	0.00

Source: BSE

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Eicher Motors

Competitive strain to be visible in coming quarters

Eicher's Q4 PAT surpassed estimates, attributed to better-than-expected margins at both RE and VECV. Since Harley Davidson (in collaboration with Hero MotoCorp) and Triumph (in collaboration with Bajaj Auto) launched their models at fiercely competitive and comparable price points to RE, competition in the 250–500cc sector has intensified. The competitive aggression will likely prompt RE to swiftly reconsider its pricing and branding strategy, potentially leading to margin pressure. Eicher has planned 20-24 new models in the medium term, which will likely increase marketing expenses and further strain margins. While RE has performed well thus far, we expect it to be impacted as competitors ramp up production in the coming quarters. Reiterate REDUCE with a revised price target of INR 3,734 (from INR 3,597).

- **RE Q4 beats estimates:** Royal Enfield's Q4 PAT at INR 9.8bn was ahead of our estimate of INR 6.7bn due to a better-than-expected margin. Aided by better realisation and stable material costs, the EBITDA margin at 27.6% was significantly higher than our expectation of 23%.
- **VECV performance:** The VECV Q4 margin declined by 260bps YoY (-20bps QoQ) to 7.8% due to government incentives received in Q4FY23. Overall PAT declined to INR 2.4bn, from INR 3.156bn YoY, impacted by the government incentives in Q4FY23.
- **Call takeaways:** (1) The VECV segment witnessed significant market share gains across segments, notwithstanding the challenging macro environment. The truck segment is the market leader in the high-end premium segment while it ranks second in the light & medium duty truck. (2) Management has indicated that the 2W market in the medium-weight segment is poised for a double-digit growth. RE expects to capitalise on the growth in these categories on the back of products launched in FY24 and new launches planned in FY25. (3) RE is working on improving the supplies of the Himalayan 350. While it is currently exported only to a few markets, RE is ramping up its supplies to launch Himalayan 350 in other markets. (4) The company is focused on absolute EBITDA growth, led by revenue growth. The impact of a recovery in its international markets and stable material prices is expected to flow through to PAT. (5) For 2Ws, it has divided the export markets into two: Developed markets (US, UK, New Zealand, South Korea) where the market is stagnant but affordability is strong. In such markets, the salience for RE motorcycles is strong. The second are the high-potential markets (some of the LATAM and Southeast Asian markets). RE has termed these new home markets, with significant growth potential, and it is focused on developing a strong distribution network plus improving penetration.

Quarterly/annual financial summary

YE Mar (INR mn)	4Q FY24	4Q FY23	YoY (%)	3Q FY24	QoQ (%)	FY23	FY24	FY25E	FY26E
Net Sales	41,734	37,314	11.8	41,156	1.4	141,759	162,340	180,524	200,066
EBITDA	11,286	9,337	20.9	10,903	3.5	34,436	43,269	42,355	46,957
APAT	10,705	9,056	18.2	9,960	7.5	29,139	40,010	36,639	40,649
Diluted EPS (INR)	39.1	33	18.1	36.4	7.5	106.6	146.1	133.8	148.5
P/E (x)						43.8	32.0	34.9	31.5
EV / EBITDA (x)						33.3	26.5	26.3	23.2
RoCE (%)						22.7	25.6	20.8	20.3

Source: Company, HSIE Research

REDUCE

CMP *(as on 10 May 2024)*	INR 4,658
Target Price	INR 3,734
NIFTY	22,055

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	INR 3,597	INR 3,734
EPS %	FY25E	FY26E
	5%	4%

KEY STOCK DATA	
Bloomberg code	EIM IN
No. of Shares (mn)	274
MCap (INR bn) / ($ mn)	1,275/15,274
6m avg traded value (INR mn)	2,939
52 Week high / low	INR 4,709/3,159

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	21.3	31.5	36.3
Relative (%)	19.8	19.6	19.0

SHAREHOLDING PATTERN (%)	Sep-23	Dec-23
Promoters	49.16	49.15
FIs & Local MFs	10.58	11.14
FPIs	28.89	28.95
Public & Others	11.37	10.77

Source : BSE

Pledged shares as % of total shares

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Hindustan Petroleum Corporation

Weak refining margins dent earnings

Our REDUCE rating on Hindustan Petroleum Corporation (HPCL) with a price target of INR 450 is premised on (1) the risk of lower auto-fuel marketing margins, (2) moderation in refining margins, and (3) elevated debt levels given high capex cycle. Q4FY24 EBITDA came in at INR 48bn (flat YoY, +2.2x QoQ), while PAT came in at INR 28bn (-12% YoY, +5.4x QoQ), below our estimate, owing to lower-than-expected gross refining margins (GRMs), inventory loss, higher-than-expected other expenses, depreciation and interest cost; however, this was offset by higher crude throughput, market sales volume and gross marketing margins.

- **Refining:** HPCL recorded the highest-ever crude throughput in Q4 at 5.84mmt, +18% YoY, +9% QoQ, implying an overall refinery capacity utilisation of 101.2% on the expanded capacity. However, GRMs came in below our estimate at USD 7/bbl vs USD 14/bbl YoY, USD 8.5/bbl QoQ. We expect the GRMs to moderate going ahead as new capacities come on stream. We estimate standalone GRMs at USD 8/9 per bbl for FY25/26E.
- **Marketing:** Domestic marketing sales volume was at 11.8mmt (+8% YoY, +4% QoQ), coming in above our estimate. The blended gross marketing margin for the quarter stood at INR 5.5/lit, +8% YoY, +88% QoQ, supported by robust gross marketing margins for petrol, recovery in diesel margins and steady margins for other products. We estimate a blended gross margin of INR 4/4 per lit over FY25/26E.
- **Con call takeaways:** (1) HPCL's gross debt in Q4 was at INR 603bn, declined 7% YoY, however, it rose +21% QoQ; it remains elevated, given high capex plans over the next few years with annual run rate of ~INR 160-180bn. (2) HPCL targets to complete the bottom upgradation by Q3FY25. (3) HMEL petchem capacity utilization was at ~90%; incurred a loss in Q4 due to weak polymer margins. (4) Q4 refinery inventory gain was at INR 3.5bn and marketing inventory loss was at INR 6bn. (5) The Board recommended a final dividend of INR 16.5/sh. The company has also recommended the issue of bonus shares in the ratio of 1:2.
- **Change in estimates:** We cut our FY25/26 EPS estimates by 8.3/11.3% to INR 52.9/66.1 to factor in lower GRMs, higher costs, depreciation and interest costs, partially offset by higher gross marketing margins. We have increased our capex assumption to align with the capex guided by the management. We also roll forward our target price to FY26, delivering a revised target price of INR 450/sh.
- **Our SOTP target price, at INR 450, is based on 5.5x Mar-26E EV/e for standalone refining, marketing and pipeline business respectively, and INR 203/sh for other investments. The stock is currently trading at 7.6x Mar-26E EPS.**

Standalone financial summary

YE March (INR bn)	Q4 FY24	Q3 FY24	*QoQ (%)*	Q4 FY23	*YoY (%)*	FY22*	FY23*	FY24P*	FY25E*	FY26E*
Revenue	1,146	1,113	2.9	1,079	6.1	3,499	4,407	4,339	4,612	4,917
EBITDA	48	22	122.0	48	0.1	102	(72)	249	155	185
APAT	28	5	437.4	32	(11.8)	73	(70)	160	75	94
AEPS (INR)	20.0	3.7	437.4	22.7	(11.8)	51.4	(49.2)	112.9	52.9	66.1
P/E (x)						9.7	(10.2)	4.4	9.5	7.6
EV / EBITDA (x)						10.8	(18.4)	5.1	8.6	7.5
RoE (%)						18.4	(19.0)	40.4	15.2	17.0

Source: Company, HSIE Research | *Consolidated

REDUCE

CMP *(as on 10 May 2024)*	**INR 502**
Target Price	**INR 450**
NIFTY	**22,055**

KEY CHANGES	**OLD**	**NEW**
Rating	REDUCE	REDUCE
Price Target	INR 425	INR 450
EPS change	**FY25E**	**FY26E**
	-8.3%	-11.3%

KEY STOCK DATA	
Bloomberg code	HPCL IN
No. of Shares (mn)	1,419
MCap (INR bn) / ($ mn)	711/8,520
6m avg traded value (INR mn)	4,531
52 Week high / low	INR 595/239

STOCK PERFORMANCE (%)

	3M	**6M**	**12M**
Absolute (%)	(1.7)	67.4	95.9
Relative (%)	(3.2)	55.5	78.6

SHAREHOLDING PATTERN (%)

	Dec-23	**Mar-24**
Promoters	54.90	54.90
FIs & Local MFs	21.28	22.19
FPIs	14.26	13.80
Public & Others	9.56	9.10
Pledged Shares	0.0	0.0

Source : BSE

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Mahanagar Gas

Spotlight on volume growth

BUY

CMP *(as on 10 May 2024)*	INR 1,300
Target Price	INR 1,570
NIFTY	22,055

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 1,535	INR 1,570
EPS %	FY25E	FY26E
	+3.1%	-0.6%

KEY STOCK DATA	
Bloomberg code	MAHGL IN
No. of Shares (mn)	99
MCap (INR bn) / ($ mn)	128/1,538
6m avg traded value (INR mn)	791
52 Week high / low	INR 1,580/971

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	(11.8)	24.8	18.3
Relative (%)	(13.3)	12.9	1.0

SHAREHOLDING PATTERN (%)	Dec-23	Mar-24
Promoters	32.50	32.50
FIs & Local MFs	17.23	17.40
FPIs	30.85	30.55
Public & Others	19.42	19.55
Pledged Shares	0.0	0.0

Source : BSE

Our BUY recommendation on Mahanagar Gas (MGL) with a target price of INR 1,570 is premised on (1) a pick-up in volume growth, (2) robust margin, and (3) attractive valuation. Q4FY24 EBITDA, at INR 3.9bn (+1% YoY, -12% QoQ), came broadly in line; however APAT at INR 2.7bn (-1% YoY, -16% QoQ), came below expectation, owing to higher-than-expected interest cost and depreciation and lower other income. Volumes stood at 3.78mmscmd (+12% YoY, +3% QoQ), which came above our estimate.

- **Highest-ever volumes:** MGL reported the highest-ever quarterly volume of 3.78mmscmd, (+12% YoY, +3% QoQ), above our estimate. CNG volume came broadly in line at 2.67mmscmd (+11% YoY +1% QoQ). PNG segment volume came in at 1.11mmscmd (+16% YoY, +7% QoQ), driven by strong industrial and commercial segment volume of 0.55mmscmd (+22% YoY, +8% QoQ) and Domestic PNG volume at 0.56mmscmd (+10% YoY, +6% QoQ). We estimate MGL's volumes at 3.98/4.31mmscmd for FY25/26E.
- **Robust margins:** The gross spread, at INR 17.9/scm, declined 4% YoY and 6% QoQ owing to a decline in realisation due to a cut in CNG retail price by INR 2.5/kg taken in March 2024. EBITDA/scm came broadly in line at INR 11.5/scm declining 11% YoY and 14% QoQ, owing to a decline in realisation and higher opex. Gas cost stood at INR 27.7/scm (-19% YoY, +1% QoQ). Opex came in higher at INR 6.4/scm (+10% YoY, +10% QoQ) due to higher spending on marketing activities and an increase in variable cost due to an increase in volume during the quarter. Given the favourable gas sourcing mix and pricing power, we factor healthy EBITDA margins of INR 11.8/11.5 per scm for FY25/26E.
- **Earnings call takeaways**: (1) MGL reported strong volume growth across all segments. (2) The company expects 6-7% volume growth; industrial and commercial segments to see low double-digit volume growth; margin guidance maintained at INR 9-11/scm. (3) As of Q4, the company operates 347 CNG stations; it also added 108 new industrial/commercial PNG customers in Q4, taking the count to 4,769. 1,17,279 new domestic households (HH) were connected in Q4. (4) In Raigad, the company has ~80,041 HH connections, 47 operational CNG stations and has laid ~416km of pipeline connectivity. (5) The company has incurred a Capex of ~INR 7.8bn in FY24 and has guided for a Capex of ~INR 90-100bn for FY25.
- **Change in estimates**: We revise our FY25/26 EPS estimates by +3.1/-0.6% to INR 118.6/123, to account for moderation in EBITDA margin, offset by higher volume growth. In addition, we also roll forward our target price to FY26, delivering a revised target price of INR 1,570/sh.
- **DCF-based valuation:** Our target price of INR 1,570/sh is based on Mar-26E free cash flow (WACC 11%, terminal growth rate 1%). The stock is currently trading at 10.6x Mar-26E EPS.

Financial Summary

YE March (INR bn)	Q4 FY24	Q3 FY24	QoQ (%)	Q4 FY23	YoY (%)	FY22	FY23	FY24P	FY25E	FY26E
Revenue	16	16	(0.1)	16	(2.7)	36	63	62	60	67
EBITDA	4	4	(12.2)	4	1.0	9	12	18	17	18
APAT	3	3	(16.5)	3	(1.4)	6	8	13	12	12
AEPS (INR)	26.8	32.1	(16.5)	27.2	(1.4)	60.4	80.0	135.4	118.6	123.0
P/E (x)						21.5	16.3	9.6	11.0	10.6
EV / EBITDA (x)						12.2	9.5	6.2	6.7	6.1
RoE (%)						17.5	20.4	28.8	21.3	19.6

Source: Company, HSIE Research

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Rating Criteria

BUY: >+15% return potential

ADD: +5% to +15% return potential

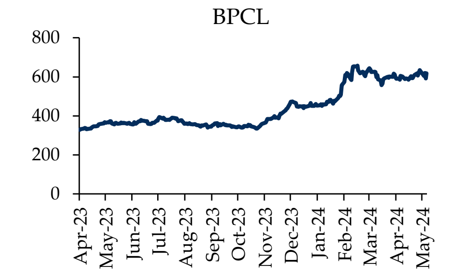
REDUCE: -10% to +5% return potential

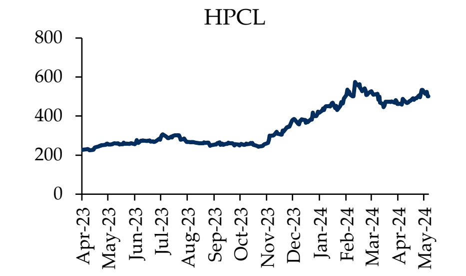
SELL: > 10% Downside return potential

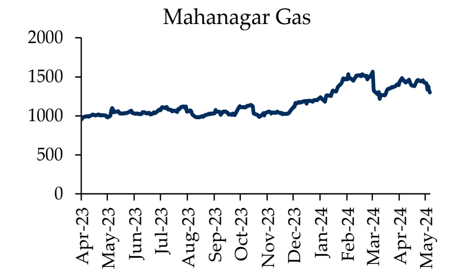
Disclosure:

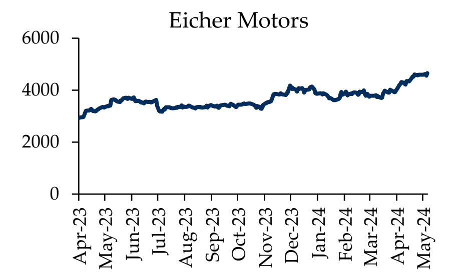
Analyst	Company Covered	Qualification	Any holding in the stock
Harshad Katkar	Bharat Petroleum Corporation, Hindustan Petroleum Corporation, Mahanagar Gas	MBA	NO
Nilesh Ghuge	Bharat Petroleum Corporation, Hindustan Petroleum Corporation, Mahanagar Gas	MMS	NO
Akshay Mane	Bharat Petroleum Corporation, Hindustan Petroleum Corporation, Mahanagar Gas	PGDM	NO
Prasad Vadnere	Bharat Petroleum Corporation, Hindustan Petroleum Corporation, Mahanagar Gas	MSc	NO
Maitreyee Vaishampayan	Eicher Motors	MSc	NO

1 Yr Price movement









Disclosure:

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Any holding in stock – No

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