# Stock Update

## Hindustan Petroleum Corporation Ltd.

## HPCL

Oct 11, 2021


RETAILRESEARCH

# Hindustan Petroleum Corporation Ltd.

| Industry | LTP | Recommendation | Base Case Fair Value | Bull Case Fair Value | Time Horizon |
|---|---|---|---|---|---|
| Refineries/Petro- Products | Rs.318 | Buy at LTP & add more on dips to Rs. 278-284 band | Rs. 352 | Rs.378 | 2 quarters |

| | |
|---|---|
| HDFC Scrip Code | HINPET |
| BSE Code | 500104 |
| NSE Code | HINDPETRO |
| Bloomberg | HPCL IN |
| CMP Oct 08, 2021 | 318.0 |
| Equity Capital (Rs Cr) | 1418.5 |
| Face Value (Rs) | 10 |
| Equity Share O/S (Cr) | 141.8 |
| Market Cap (Rs Cr) | 45116.9 |
| Book Value (Rs) | 262.2 |
| Avg. 52 Wk Volumes | 6662978 |
| 52 Week High | 326.8 |
| 52 Week Low | 163.3 |

| Share holding Pattern % (Jun, 2021) | |
|---|---|
| Promoters | 54.9 |
| Institutions | 34.1 |
| Non Institutions | 11.0 |
| Total | 100.0 |

HDFCsec Retail research stock rating meter

for details about the ratings, refer at the end of the report

* Refer at the end for explanation on Risk Ratings


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**Our Take:**

Hindustan Petroleum Corporation Ltd (HPCL) has a dominant market position as one of India's top-three oil marketing companies. HPCL's marketing business is the strongest amongst its peers with consistent market share gains in auto fuel segment despite rising private competition. Within the OMC basket, HPCL's overall profitability is highly determined by marketing business (contributed ~70% gross profit in FY21) where it further continues to focus on improvement in marketing margins. HPCL refines less than half the volume that it sells and, hence, has the highest leverage to marketing margins.

HPCL operates three refineries (including the Bhatinda refinery of HPCL-Mittal Energy Limited; HMEL; 48.9% stake in joint venture), which have a combined capacity of 27.1 million metric tons (MMT) and a sales volume of 36.6 MMT in FY21 vs. 39.6 MMT in FY20, translating into an oil refining market share of about 10.8%. HPCL held 21% of India's petroleum product pipelines as on June 30, 2021.The coastal location of the refineries provides logistical advantages for the import of crude oil and export of petroleum products. Both refineries, Mumbai and Vishakhapatnam, have maintained healthy energy consumption levels. Market position is underpinned by an entrenched marketing and distribution infrastructure, with 18,634 retail outlets. The company had a network of 6,192 LPG distributors as on March 31, 2021. Furthermore, aggressive branding and marketing exercises have been undertaken to expand the retail network.

HPCL is continuously expanding the business portfolio with greater presence and focus in Natural Gas, Renewables and Petrochemicals towards energy security, climate change mitigation and future proofing of the business. The company is engaged in execution of several projects, including modernisation and capacity expansion at the Mumbai and Visakhapatnam refineries, setting up a greenfield refinery in Barmer, Rajasthan, modernisation and augmentation of the pipeline infrastructure, and expansion in the natural gas sector.

HPCL plans to invest Rs 65000 cr over the next five years on several projects of modernisation, capacity expansion and augmentation of pipeline network. Furthermore, aggressive branding and marketing exercises have been undertaken to expand the retail network. These initiatives could help to maintain the strong brand position in the Indian petroleum market.

We had initiated coverage on HPCL on 06 Oct, 2020, recommend to buy in the Rs 166-170 band and add further on dips to Rs. 146-150 band for base case target of Rs 185 and bull case target of Rs 198. The stock achieved its both targets before expiry of the call. Besides, we had issued the report as a Pre-Budget Picks on 25 Jan, 2021 and recommended to buy at LTP of Rs 225 and add further on dips to Rs 208-210 for a target of Rs 250, the stock achieved its target on 18 Feb, 2021. Given healthy growth outlook, we have now revised earnings and increased target price for the stock.

## Valuation & Recommendation:

HPCL's strong operational profile driven by dominant market position supported by established marketing and distribution network and scale-up in refining capacity provides comfort. On the refining side, we expect, margins to bottom out and GRMs are likely to recover H2FY22 onwards. Product marketing margins have remained strong, providing support to overall profitability. Moreover, completion of the ongoing modernisation and expansion of current refineries should enhance profitability going forward.

An early and smooth divestment of BPCL could bring buzz to the PSU oil space and benefit valuations of all including HPCL. HPCL could also benefit from the expected turnaround in global refining cycle (utilization at global refineries is likely to improve on slowing net capacity additions) and buoyant domestic marketing margins, especially for auto fuels, despite high level of global crude and petroleum product prices. An attractive dividend yield of 8.6% is an added attraction. LPG deregulation expected in the next 2.-4 quarters could drive earnings growth as well as re-rating of OMCs including HPCL.

**Investors could buy the stock at LTP and add more on dips to Rs. 278-284 band (Rs 224/share for standalone equity value+ Rs 57/share for investment value and CWIP), based on SOTP valuation. Base case fair value of the stock is Rs 352 (Rs 295/share for standalone equity value+ Rs 57/share for investment value and CWIP)) and the bull case fair value of the stock is Rs 378 (Rs 321/share for standalone equity value+ Rs 57/share for investment value and CWIP) over the next 2 quarters. At the CMP of Rs 318 the stock trades at (6.4xFY23E EV/EBITDA, 6.3xFY23E EPS).**

## Financial Summary

| Particulars (Rs Cr) | Q2FY21 | Q2FY20 | YoY-% | Q1FY21 | QoQ-% | FY20* | FY21* | FY22E* | FY23E* |
|---|---|---|---|---|---|---|---|---|---|
| Total Operating Income | 72443 | 74843 | 92.1 | 37721 | -3.2 | 269092 | 233248 | 246696 | 265589 |
| EBITDA | 3193 | 4666 | -26.7 | 4354 | -31.6 | 4660 | 16003 | 9026 | 12050 |
| Depreciation | 914 | 937 | 5.5 | 866 | -2.5 | 3370 | 3625 | 3723 | 3988 |
| Other Income | 372 | 545 | -33.9 | 563 | -31.7 | 1682 | 2644 | 2504 | 2372 |
| Interest Cost | 254 | 205 | -21.0 | 322 | 23.8 | 1139 | 963 | 1287 | 1258 |
| Tax | 602 | 1051 | -34.2 | 915 | -42.7 | -1264 | 3534 | 1794 | 2447 |
| APAT | 1795 | 3018 | -10.9 | 2814 | -41.9 | 307 | 10663 | 5332 | 7276 |
| Diluted EPS (Rs) | 12.7 | 20.8 | -34.7 | 19.4 | -39.1 | 2.1 | 73.4 | 36.7 | 50.1 |
| RoE-% | | | | | | 8.6 | 30.9 | 13.4 | 16.5 |
| P/E (x) | | | | | | 150.5 | 4.3 | 8.7 | 6.3 |
| EV/EBITDA | | | | | | 17.2 | 5.2 | 8.8 | 6.4 |

(*=Consolidated) (Source: Company, HDFC sec)

**Q1FY22 Result Update**

- HPCL reported above expectation numbers in Q1FY22. Standalone net revenue was up by 92.1% YoY to Rs 72,443 cr. The company posted a net profit of Rs 1,795 cr in Q1FY22 as against Rs 2814 cr profit in Q1FY21.
- Its crude throughput decreased to 2.51 MMT in Q1FY22 vs. 4.39 MMT in Q4FY21 and 3.97 MMT in Q1FY21. Its pipeline throughput decreased to 4.34 MMT in Q1FY22 vs. 3.54 MMT in Q1FY21, while, it was at 5.36 MMT in Q4FY21.
- Domestic product sales was at 8.45 MMT in Q1FY22 vs. 9.83 MMT in Q4FY21 and 7.24 MMT in Q1FY21 and export product sales was at 0.38 MMT in Q1FY22 vs. 0.31 MMT in Q4FY21 and 0.38 MMT in Q1FY21. Fall in the volumes was on account of Covid impact on demand for petroleum products, planned shutdown in Mumbai refinery during the quarter and fire accident at Vizag refinery.
- HPCL's Average Gross Refining Margin during the quarter ended June 30, 2021 was US$ 3.31 per BBL as against US$ 0.04 per BBL in Q1FY21 and $8.1 per BBL in Q4FY21. The fall may be due to lack of adventitious gains in Q1FY22.

**Key Updates**

**HPCL plans to invest Rs 65,000 crore in next five years**

HPCL plans to invest over Rs 65,000 crore in the next five years to build and develop infrastructure. HPCL's capex plans include the implementation of major projects such as the capacity expansion at both its refineries, expansion of its pipeline network and setting up of new pipelines. Key highlights of planned capex are

- Of the planned capex of Rs 16000 cr for FY22 (FY21: Rs 13000 cr), Rs 7500 cr will be incurred for refinery upgradation and expansion, Rs 5,500 cr for extending marketing network and Rs 3000 cr for the equity investment in joint ventures (refinery and city gas distribution).
- The company could increase its refining capacity at the Mumbai facility to 9.5 million tons per annum (MTPA) from 7.5 MTPA and at the Visakhapatnam refinery to 15 MTPA from 8.3 MTPA. These projects will improve the complexity of the refineries and add to the overall gross refining margins. The Mumbai refinery expansion plan will be completed by Oct-Nov, 2021. With this, the Mumbai refinery capacity will increase by 2 mtpa.
- HPCL is in process of raising the capacity of the Vizag refinery to 300,000 bpd. The expansion will be completed in this fiscal year to March 2022 while the residue upgradation facility at the Vizag plant is also likely to be completed in 2022. In addition, HPCL is building an 180,000 bpd refinery and petrochemical plant at Barmer in Rajasthan.
- HPCL is planning to completely convert negative margin bottoms (fuel oil) to high margin light and middle distillates, leading to a structural improvement in GRM.
- HPCL exports petroleum products to 14 countries and the company is further expanding its market through HPCL Middle East FZCO, a wholly owned subsidiary based in Dubai, to increase its presence in West Asia and African markets.
- HPCL will invest Rs 10,000 cr to create an end-to-end natural gas value chain, through a combination of joint ventures or private participation. The investment will be spread over the next five years.

- HPCL is setting up 11 LNG stations and is in talks with auto manufacturers to encourage them to build facilities for LNG-based trucks and buses. The company has also approved a project for around Rs 100 cr to have a corridor, which can be used along with other oil marketing companies to use LNG as a fuel,
- HPCL has acquired the balance 50% equity stake in HPCL Shapoorji Energy Private Limited (HSEPL) from M/s S P Ports Pvt Ltd on 30 March 2021. Post-acquisition, HPCL's stake in HSEPL gets enhanced to 100%, making HSEPL a wholly owned subsidiary of HPCL. HSEPL is constructing a 5 mn tons per annum LNG terminal at Chhara, Gujarat, India, at a project cost of approximately Rs 4300 cr which is likely to be completed by end of calendar year 2022. The terminal will have all facilities for receipt of LNG through ocean going tankers, marine unloading, storage, LNG road tanker loading, regasification, and supply of regasified LNG to the gas grid. The project is further expandable to a capacity of 10 MTPA in future.
- HPCL, along with its joint venture companies, has presence in CGD business in 20 geographical areas in 34 districts covering nine states in India. HPCL on its own operates 674 CNG stations as on date which it plans to expand further. It is also foraying into setting up of LNG dispensing stations. These, together with the focus on enhanced use of natural gas in refineries of HPCL and its joint ventures/subsidiaries, add to the strategic value of the acquisition of the 50% stake.

**HPCL plans to commission 5,000 EV charging stations over next three years and to foray into non-fuel retailing ahead**

Electric vehicles are getting popular by the day in India. Now, the EV charging facilities have been provided at 87 petrol pumps of HPCL. HPCL is planning to add 5,000 electric vehicle (EV) charging stations in the next three years. The company has earlier tied up with the three entities including Convergence Energy Services Ltd (CESL), Tata Power, and Magenta EV Systems, for setting up charging infrastructure at its retail outlets. HPCL is focused on reviewing green power and green hydrogen opportunities. HPCL will soon begin setting up battery charging/swapping stations at its fuel outlets in Tamil Nadu. Besides, HPCL has invited bids to develop a 1.3 MW ground-mounted solar project at its Yediyur Receiving Station in the Tumakuru district of Karnataka. The last date to submit bids is October 13, 2021. The bidder must also provide comprehensive operation and maintenance (O&M) services for five years.

For charging batteries, HPCL will use solar power. At present, the company is looking to install solar panels with a capacity of 10 KW/hour to 15 KW/hour. If approvals come from the Petroleum and Explosives Safety Organisation (PESO) for installing solar panels atop canopies. HPCL will also offer a subsidy of around Rs 2 lakh each to outlet owners to encourage them to go solar. Solarisation' of all outlets will be done in the first phase, followed by charging stations in select outlets depending on the demand. Each outlet will have to spend Rs 12 lakh to Rs 14 lakh on setting up the infrastructure. The swapping station will allow the vehicle owner to leave their battery at the outlet for charging. A network of swapping stations will allow vehicle owners to charge their batteries.

Besides, HPCL unveiled its branded store "Happy Shop" in Mumbai marking its foray into non-fuel retailing to provide home utility products including food, toiletries, healthcare products, bakery products, groceries, medicines, and more. HPCL also launched poWer 100, Ultra-

Premium grade Petrol with Octane rating of 100 to cater to the growing number of high-end cars and bikes. poWer 100 provides improved knocking characteristics for high-end engines. Its superior combustion properties reduce emissions making it more ecofriendly.

**Focus on expanding its marketing network and could help to generate revenue going forward**

HPCL has the second largest share of product pipelines in India with a pipeline network of more than 3370 kms for transportation of petroleum products and a vast marketing network consisting of 15 Zonal offices in major cities and 130 Regional Offices facilitated by a Supply & Distribution infrastructure comprising Terminals, Pipeline networks, Aviation Service Stations, LPG Bottling Plants, Inland Relay Depots & Retail Outlets, Lube and LPG Distributorships. HPCL has a wide distribution and marketing infrastructure network, including a network of cross-country pipelines, terminals, depots. The company commissioned 2,158 new retail outlets, which has been the highest in a year taking the total retail outlets to 18,634 as of 31 March 2021. Last-mile delivery capability of the company was further enhanced with commissioning of 112 new LPG distributorships during the year taking total number of LPG distributors to 6,192.

**Marketing Networks (Nos.)**

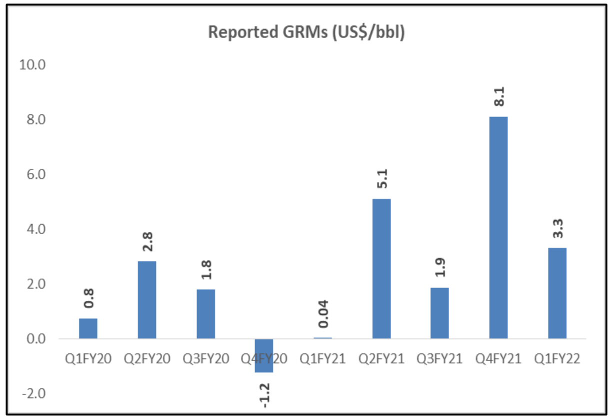
| Particulars | Unit | FY16 | FY17 | FY18 | FY19 | FY20 | FY21 |
|---|---|---|---|---|---|---|---|
| Regional offices | Nos, | 106 | 119 | 128 | 133 | 133 | 133 |
| Terminals/ Installations/ TOPs | Nos, | 37 | 42 | 41 | 42 | 43 | 41 |
| Depots (including exclusive lube depots) | Nos, | 73 | 62 | 68 | 68 | 68 | 70 |
| LPG bottling plants | Nos, | 46 | 47 | 48 | 49 | 50 | 51 |
| ASFs | Nos, | 37 | 37 | 41 | 43 | 44 | 46 |
| Retail outlets | Nos, | 13802 | 14412 | 15062 | 15440 | 16476 | 18634 |
| SKO/ LDO dealers | Nos, | 1638 | 1638 | 1638 | 1638 | 1638 | 1638 |
| LPG distributors | Nos, | 4278 | 4532 | 4849 | 5866 | 6110 | 6192 |
| LPG customers (in Crore) | Nos, | 5.29 | 6.17 | 6.93 | 8.15 | 8.51 | 8.72 |

(Source: Company, HDFC sec)

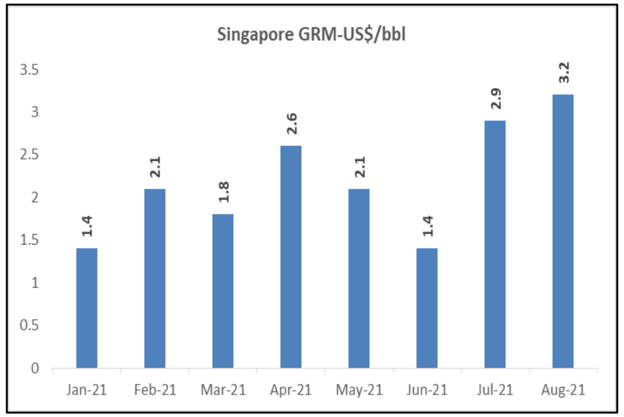
**Expectation of stability on GRM to enhance its profitability**

HPCL has witnessed weak refining margins as the covid-19 pandemic had adversely impacted business conditions and impacted global oil demand. However, year 2021 is showing decent recovery trends. Benchmark Singapore gross refining margins (GRMs) have increased in August. GRM is the margin refiners earn from turning every barrel of crude oil into fuel products. Singapore GRM is at a 22-month high of $3.2 per barrel, while petrol cracks are down 4% month-on-month to $11.9 per barrel in August till date from a 20-month high of $12.4 per barrel in July. The improving trend in refining margins augurs well for refining companies.

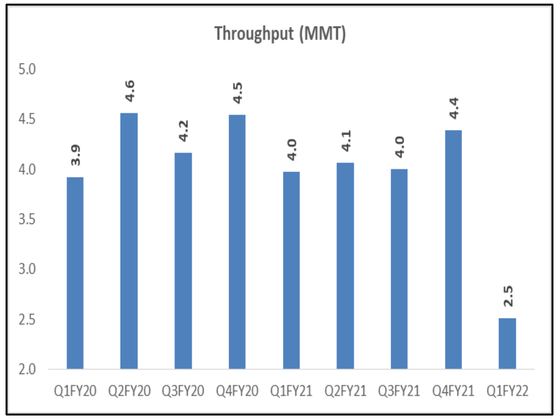
**Quarterly reported GRMs (US$/bbl)**




**Monthly Singapore GRM (US$/bbl)**



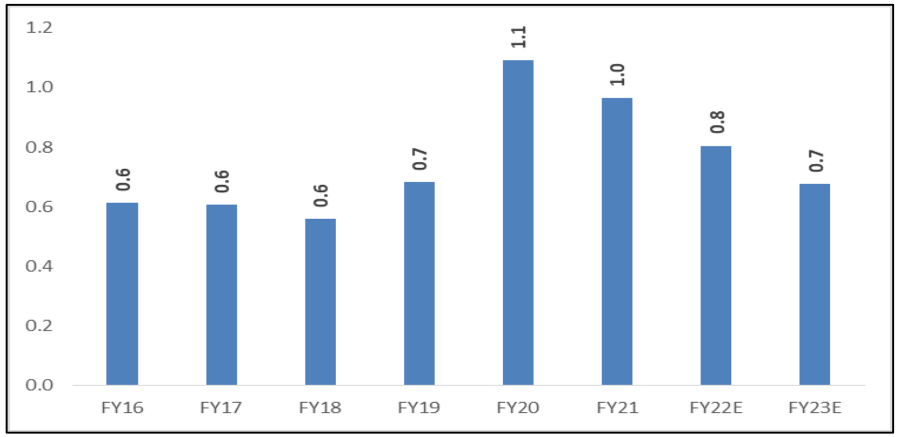

**Throughput (MMT)**



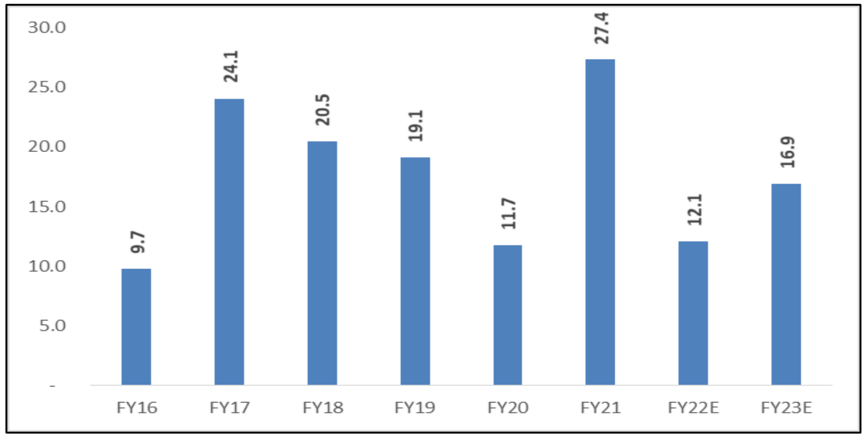

**Sound financial profile with decent dividend yield and liquidity**

- HPCL, on a consolidated basis, reported Total Operating Income of Rs. 233,248 cr in FY21 as against Rs. 269,092 cr in FY20, EBITDA and PAT margin improved from 1.7% in FY20 to 6.9% in FY21 and 1% in FY20 to 4.6% in FY21 respectively.
- Product marketing margins have remained strong, providing support to overall profitability. Moreover, completion of the ongoing modernisation and expansion of current refineries should enhance profitability going forward.
- On a consolidated basis, overall gearing improved to 1x as on 31 March, 2021 from 1.1x as on 31 March, 2020 despite higher borrowings viz. term loans, foreign currency loans, higher working capital borrowings and finance lease.
- Interest coverage ratio also increased from 1.1x in FY20 to 12.8x in FY21, due to decrease in interest expenses and higher EBITDA.

**Net Debt to Equity(x)**




**Dividend Per Share (Rs)**



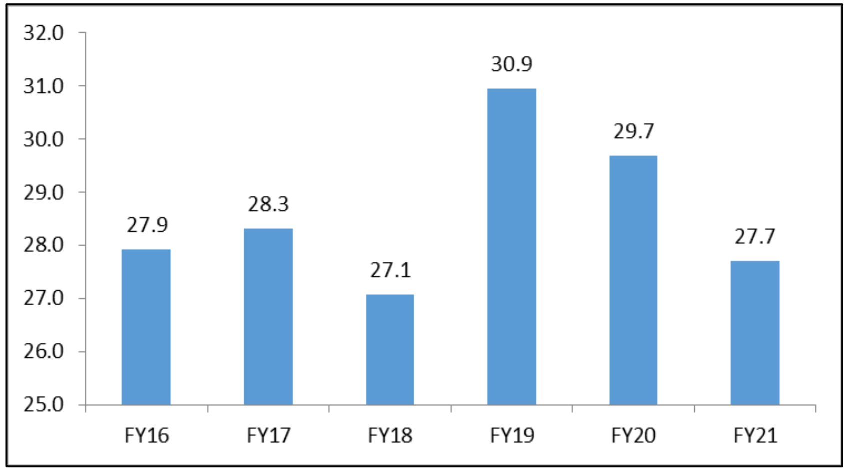
- HPCL's liquidity profile is expected to remain strong, aided by healthy cash flow generation and sizeable cash and cash equivalents (Rs 5,992 cr as on 31 March, 2021). The company has made strong dividend payout of 37.3% in FY21, with dividend yield at 8.6%.
- The company enjoys high financial flexibility that allows it to raise debt and access capital markets at competitive rates to fund its capex and working capital requirements.

**What could go wrong?**

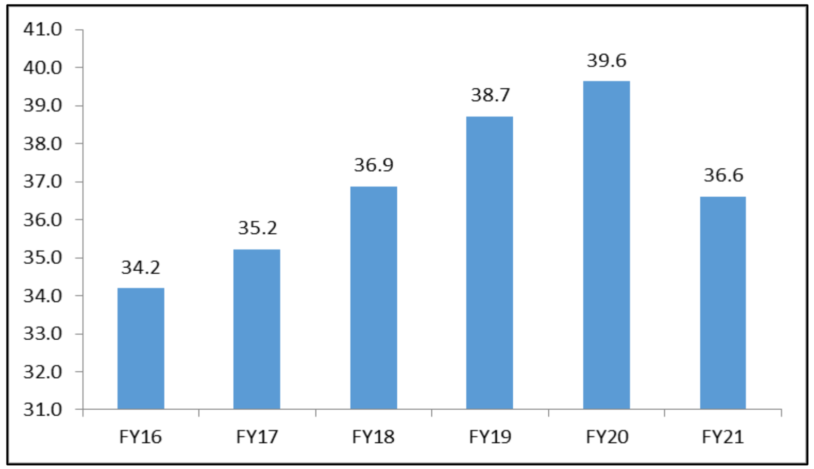
- Refining is passing through its worst phase in over a decade and the unprecedented COVID-19 has affected the HPCL's operations over the recent past and is likely to impact the overall business in the near term, if third wave of COVID-19 spreads. However, volumes could see recovery once the economy opens up fully. So far in FY22, Diesel and Naptha consumtion has been sluggish.
- Economic slowdown, volatility in oil and gas prices and regulatory changes in Oil and Gas industry could impact its growth story in the near future. The changing macro-economic scenario can have an impact on the growth plans of the company.
- Given the volatility in Crude oil and petroleum product prices, inventory gains/losses in each quarter can be large affecting the estimates.
- The oil prices and crack spreads are a function of many dynamic markets and fundamental factors such as global demand supply dynamics, geo-political stability in countries with oil reserves, OPEC policies, exchange rates, etc. These factors have translated in high level of volatility in oil prices and crack spreads. Thus, Company's profitability is exposed to volatility of crude prices and crack spreads as well as foreign exchange fluctuations. Every US$1/bbl change in GRM results in ~14% impact on EPS for HPCL.
- HPCL has seen under-recoveries on account of controlled prices of SKO and LPG in the domestic market over the past. While GoI has provided budgetary support, the absence of an institutionalised mechanism to meet under-recoveries has delayed subsidy receipts in the past. A significant rise in net under recoveries, due to changes in Government policies on pricing as well as subsidy sharing on sensitive petroleum products could erode the HPCL's profits and cash flows.
- Privatisation or divestment moves (or delay therein) in the OMCs by the Govt could impact the valuation of all OMC companies.
- HPCL is engaged in several projects, including modernisation and capacity expansion at the Mumbai and Visakhapatnam refineries, setting up a dual-feed petrochemical capacity of 1.2 MTPA in a JV at Barmer. Any adverse development in project cost and timelines, and stabilisation of operations after completion could be impact its profitability. These capex investments can also pull down the return ratios in the interim.
- Efficiency parameters in terms of refinery margins of PSU oil companies are much below that of the private players. This hurts more in times of lower crack spreads. However post completion of modernization and expansion of HPCL's refineries, its Nelson Complexity Index will improve to 10 from an average of around 8 currently.
- In an era when the world is working aggressively to reduce carbon emissions, fossil fuels have an uncertain future. However the shift to renewable fuels is likely to be slow and HPCL is taking steps to adapt towards the new era of renewables.
- There is an ongoing dispute between the boards of HPCL and ONGC over recognition of the latter as promoter.

## Operating Metrics

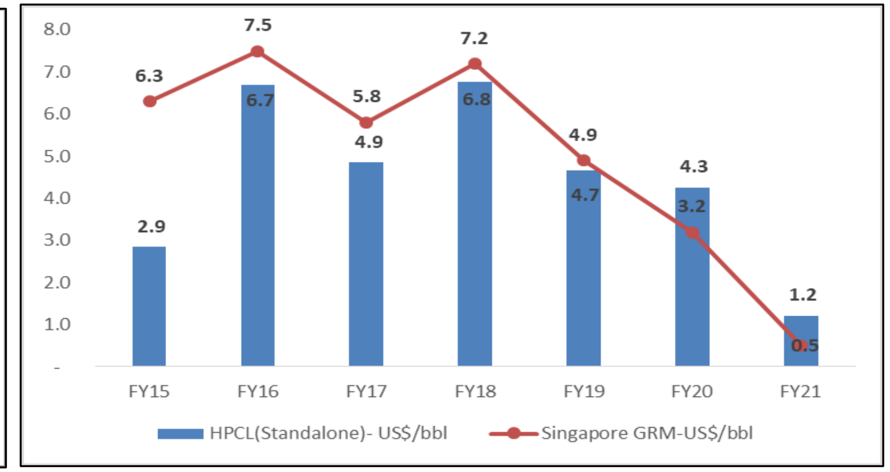
**Refinery Throughput (MMT)**




**Market Sales Volume (MMT)**




**GRM (US$/bbl)**




## HPCL Valuation

| Business | EBIDTA (Rs Cr) | Base Case | | | Bull Case | | | Valuation basis |
|---|---|---|---|---|---|---|---|---|
| | | Multiple | Value (Rs Cr) | Value (Rs/sh)* | Multiple | Value (Rs Cr) | Value (Rs/sh)* | |
| **Standalone** | | | | | | | | |
| Refining | 1,384.0 | 5.8 | 8,027.3 | 55.3 | 6.3 | 8,719.3 | 57.2 | EV/EBIDTA on Mar 23E |
| Marketing | 8,881.4 | 5.8 | 51,068.1 | 351.6 | 6.0 | 53,288.4 | 366.9 | EV/EBIDTA on Mar 23E |
| Pipeline | 1,705.5 | 6.0 | 10,233.1 | 70.5 | 6.5 | 11,085.8 | 73.4 | EV/EBIDTA on Mar 23E |
| Standalone net Debt | | | -26,490.4 | -182.4 | | -26,490.4 | -182.4 | As on Mar 23E |
| **Standalone Equity Value** | **11,970.9** | | **42,838.0** | **294.9** | | **46,603.1** | **320.9** | |
| **Investments** | | | | | | | | |
| HMEL Investment | 4,221.3 | 5.5 | 23,217.0 | 159.9 | | | | EV/EBIDTA on Mar 23E |
| HMEL net debt | | | -20,617.4 | -142.0 | | | | As on Mar 23E |
| HMEL Equity value | | | 2,599.6 | 8.8 | | 2,599.6 | 8.8 | HPCL's stake is 48.9% |
| **Traded investments** | **No of shares (Cr)** | **CMP** | | | **CMP** | | | |
| Oil India | 1.8 | 240.0 | 321.0 | 2.2 | | | | 25% disc. to CMP |
| MRPL | 29.7 | 51.0 | 1,136.6 | 7.8 | | | | 25% disc. to CMP |
| **Other non-traded investments** | | | 2,883.7 | 19.9 | | | | 0.5x BV |
| **Investments Equity Value** | | | **6,940.9** | **38.6** | | **6,940.9** | **38.6** | |
| **CWIP** | | | **2,682.3** | **18.5** | | **2,682.3** | **18.5** | |
| **Value per share** | | | | **352.0** | | | **378.0** | |

## Peer Comparison

| Company, Rs in Cr | Mkt Cap, Cr | Sales | | | EBITDA | | | APAT | | | ROE-% | | | P/E (x) | | | EV/EBITDA(x) | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | FY21 | FY22E | FY23E | FY21 | FY22E | FY23E | FY21 | FY22E | FY23E | FY21 | FY22E | FY23E | FY21 | FY22E | FY23E | FY21 | FY22E | FY23E |
| IOCL | 123984 | 3,63,900 | 4,12,200 | 4,35,700 | 41,700 | 25,700 | 30,300 | 23,900 | 9,900 | 12,900 | 23.0 | 8.6 | 10.6 | 5.3 | 12.2 | 9.4 | 5.3 | 8.3 | 7.2 |
| BPCL | 97454 | 2,30,200 | 2,38,300 | 2,49,400 | 21,300 | 15,000 | 17,200 | 16,200 | 7,900 | 9,300 | 35.9 | 16.7 | 21.9 | 5.8 | 11.9 | 10.1 | 5.5 | 7.9 | 6.6 |
| HPCL | 45117 | 2,33,248 | 2,46,696 | 2,65,589 | 16,003 | 9,026 | 12,050 | 10,663 | 5,332 | 7,276 | 30.9 | 13.4 | 16.5 | 4.3 | 8.7 | 6.3 | 5.2 | 8.8 | 6.4 |

## Financials (Consolidated)

### Income Statement

| (Rs Cr) | FY19 | FY20 | FY21 | FY22E | FY23E |
|---|---|---|---|---|---|
| **Net Revenues** | **275473** | **269092** | **233248** | **246696** | **265589** |
| Growth (%) | 25.5 | -2.3 | -13.3 | 5.8 | 7.7 |
| Operating Expenses | 263906 | 264432 | 217245 | 237669 | 253539 |
| **EBITDA** | **11567** | **4660** | **16003** | **9026** | **12050** |
| **Growth (%)** | **8.0** | **-59.7** | **243.5** | **-43.6** | **33.5** |
| **EBITDA Margin (%)** | **4.2** | **1.7** | **6.9** | **3.7** | **4.5** |
| Depreciation | 3085 | 3370 | 3625 | 3723 | 3988 |
| **EBIT** | **8482** | **1290** | **12378** | **5303** | **8062** |
| Other Income | 1413 | 1682 | 2644 | 2504 | 2372 |
| Interest expenses | 786 | 1139 | 963 | 1287 | 1258 |
| **PBT** | **9109** | **1832** | **14058** | **6521** | **9176** |
| Tax | 3349 | -1264 | 3534 | 1794 | 2447 |
| **RPAT** | **5761** | **3097** | **10524** | **4728** | **6728** |
| APAT | **6691** | **307** | **10663** | **5332** | **7276** |
| Growth (%) | **-7.3** | **-95.4** | **3374.9** | **-50.0** | **36.5** |
| EPS | 46.1 | 2.1 | 73.4 | 36.7 | 50.1 |

### Balance Sheet

| As at March | FY19 | FY20 | FY21 | FY22E | FY23E |
|---|---|---|---|---|---|
| **SOURCE OF FUNDS** | | | | | |
| Share Capital | 1524 | 1524 | 1452 | 1452 | 1452 |
| Reserves | 28876 | 29456 | 36628 | 40204 | 45030 |
| **Shareholders' Funds** | **30401** | **30981** | **38081** | **41657** | **46482** |
| Long Term Debt | 12128 | 23110 | 27764 | 30210 | 32260 |
| Net Deferred Taxes | 7396 | 5491 | 5462 | 5676 | 5847 |
| Long Term Provisions & Others | 17826 | 23666 | 472 | 23835 | 23843 |
| **Minority Interest** | 0 | 0 | 0 | 0 | 0 |
| **Total Source of Funds** | **67751** | **83248** | **71779** | **101377** | **108431** |
| **APPLICATION OF FUNDS** | | | | | |
| Net Block & Goodwill | 41642 | 48952 | 50912 | 72205 | 75284 |
| CWIP | 9519 | 17170 | 25336 | 4934 | 3973 |
| Other Non-Current Assets | 12633 | 13167 | 13745 | 13804 | 14088 |
| **Total Non Current Assets** | **63793** | **79288** | **89993** | **90944** | **93345** |
| Current Investments | 0 | 0 | 0 | 0 | 0 |
| Inventories | 20444 | 19326 | 28764 | 26351 | 27995 |
| Trade Receivables | 5667 | 3934 | 6870 | 5714 | 6151 |
| Cash & Equivalents | 5302 | 5568 | 5993 | 11890 | 13484 |
| Other Current Assets | 12052 | 8790 | 2541 | 2532 | 2490 |
| **Total Current Assets** | **43465** | **37618** | **44167** | **46487** | **50120** |
| Short-Term Borrowings | 13909 | 16276 | 14910 | 15176 | 12676 |
| Trade Payables | 19053 | 11469 | 17799 | 16072 | 17069 |
| Other Current Liab & Provisions | 6545 | 5914 | 29672 | 4805 | 5289 |
| **Total Current Liabilities** | **39507** | **33658** | **62380** | **36054** | **35034** |
| Net Current Assets | 3958 | 3959 | -18213 | 10434 | 15086 |
| **Total Application of Funds** | **67751** | **83248** | **71779** | **101377** | **108431** |

### Cash Flow Statement

| (Rs Cr) | FY19 | FY20 | FY21 | FY22E | FY23E |
|---|---|---|---|---|---|
| Reported PBT | 10,039 | 1,374 | 14,197 | 7,126 | 9,724 |
| Non-operating & EO items | -1,413 | -1,682 | -2,644 | -2,504 | -2,372 |
| Interest Expenses | 786 | 1,139 | 963 | 1,287 | 1,258 |
| Depreciation | 3,085 | 3,370 | 3,625 | 3,723 | 3,988 |
| Working Capital Change | -4,437 | -2,103 | 23,964 | -23,016 | -559 |
| Tax Paid | -2,757 | -640 | -3,563 | -1,579 | -2,277 |
| **OPERATING CASH FLOW ( a )** | **5,303** | **1,458** | **36,542** | **-14,964** | **9,762** |
| Capex | -11,540 | -18,331 | -13,752 | -4,614 | -6,106 |
| Free Cash Flow | -6,237 | -16,873 | 22,790 | -19,578 | 3,656 |
| Investments | -1,331 | 163 | -625 | 36 | -214 |
| Non-operating income | 544 | 985 | 2,691 | 2,408 | 2,302 |
| **INVESTING CASH FLOW ( b )** | **-12,327** | **-17,183** | **-11,686** | **-2,170** | **-4,018** |
| Debt Issuance / (Repaid) | 5,501 | 13,349 | 3,288 | 2,712 | -450 |
| Interest Expenses | -786 | -1,139 | -963 | -1,287 | -1,258 |
| FCFE | -1,521 | -4,663 | 25,115 | -18,153 | 1,948 |
| Share Capital Issuance | 0 | 0 | -72 | 0 | 0 |
| Dividend | -2,779 | -1,704 | -3,976 | -1,756 | -2,451 |
| Others | 4,100 | 5,485 | -22,709 | 23,363 | 9 |
| **FINANCING CASH FLOW ( c )** | **6,037** | **15,991** | **-24,432** | **23,032** | **-4,151** |
| **NET CASH FLOW (a+b+c)** | **-987** | **266** | **425** | **5,898** | **1,594** |
| **Cash & Equivalents** | **5,302** | **5,568** | **5,992** | **11,890** | **13,484** |

### Key Ratios

| (Rs Cr) | FY19 | FY20 | FY21 | FY22E | FY23E |
|---|---|---|---|---|---|
| EBITDA Margin (%) | 4.2 | 1.7 | 6.9 | 3.7 | 4.5 |
| EBIT Margin (%) | 3.1 | 0.5 | 5.3 | 2.1 | 3.0 |
| APAT Margin (%) | 2.4 | 1.0 | 4.6 | 2.2 | 2.7 |
| RoE (%) | 23.9 | 8.6 | 30.9 | 13.4 | 16.5 |
| RoCE (%) | 9.6 | 3.4 | 12.2 | 6.2 | 6.9 |
| **Solvency Ratio** (x) | | | | | |
| Net Debt/EBITDA | 1.8 | 7.3 | 2.3 | 3.7 | 2.6 |
| Net D/E | 0.7 | 1.1 | 1.0 | 0.8 | 0.7 |
| **PER SHARE DATA** (Rs) | | | | | |
| EPS | 46.1 | 2.1 | 73.4 | 36.7 | 50.1 |
| CEPS | 67.3 | 25.3 | 98.4 | 62.3 | 77.6 |
| Dividend | 19.1 | 11.7 | 27.4 | 12.1 | 16.9 |
| BVPS | 209.3 | 213.3 | 262.2 | 286.8 | 320.0 |
| **Turnover Ratios (days)** | | | | | |
| Debtor days | 7.5 | 5.3 | 10.8 | 8.5 | 8.5 |
| Inventory days | 27.1 | 26.2 | 45.0 | 39.0 | 38.5 |
| Creditors days | 25.2 | 15.6 | 27.9 | 23.8 | 23.5 |
| **VALUATION** (x) | | | | | |
| P/E | 6.9 | 150.5 | 4.3 | 8.7 | 6.3 |
| P/BV | 1.5 | 1.5 | 1.2 | 1.1 | 1.0 |
| EV/EBITDA | 5.8 | 17.2 | 5.2 | 8.8 | 6.4 |
| EV / Revenues | 0.3 | 0.3 | 0.4 | 0.3 | 0.3 |
| Dividend Yield (%) | 6.0 | 3.7 | 8.6 | 3.8 | 5.3 |

(Source: Company, HDFC sec)

## One Year Price Chart


### HDFC Sec Retail Research Rating description

**Green Rating stocks**

This rating is given to stocks that represent large and established business having track record of decades and good reputation in the industry. They are industry leaders or have significant market share. They have multiple streams of cash flows and/or strong balance sheet to withstand downturn in economic cycle. These stocks offer moderate returns and at the same time are unlikely to suffer severe drawdown in their stock prices. These stocks can be kept as a part of long term portfolio holding, if so desired. This stocks offer low risk and lower reward and are suitable for beginners. They offer stability to the portfolio.

**Yellow Rating stocks**

This rating is given to stocks that have strong balance sheet and are from relatively stable industries which are likely to remain relevant for long time and unlikely to be affected much by economic or technological disruptions. These stocks have emerged stronger over time but are yet to reach the level of green rating stocks. They offer medium risk, medium return opportunities. Some of these have the potential to attain green rating over time.

**Red Rating stocks**

This rating is given to emerging companies which are riskier than their established peers. Their share price tends to be volatile though they offer high growth potential. They are susceptible to severe downturn in their industry or in overall economy. Management of these companies need to prove their mettle in handling cyclicality of their business. If they are successful in navigating challenges, the market rewards their shareholders with handsome gains; otherwise their stock prices can take a severe beating. Overall these stocks offer high risk high return opportunities.

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