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OIL & GAS

21 December 2023

OMCs: Closing the gap

- **Despite recent rally in OMCs, we believe stock prices are yet not fully reflecting long-term sustainable marketing margins**
- **However, near term, a combination of potential inventory loss and proximity to general election will likely limit upside in margins**
- **Reiterate BUY on BPCL and HPCL with higher TPs of Rs 525 and Rs 450 but downgrade IOCL to HOLD with higher TP of Rs 125**

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Sustainable margins largely factored in valuation: We believe the current rally of ~40% since 27 October has largely captured a significant portion of a sustainable margin expansion for the Oil Marketing Companies (OMCs). We further acknowledge that there is a case for stock prices to reflect a mid-cycle marketing margin given that Indian consumers have largely accepted retail prices of petrol and diesel that allow OMCs to cover crude price level of US$80-85/bbl. We also acknowledge that a higher discount on Russian crude is not likely and that proximity to general elections will limit any near-term upside to marketing margins despite moderation in crude oil prices.

Margin normalisation likely: Although marketing margins in H1FY24 were significantly higher than historical levels, they were supported by a combination of higher retail prices despite lower crude oil prices and discounted Russian crude. With OMCs largely recouping their historical losses, as evident from net debt reverting back to FY22 levels, we see little rationale for continuation of higher marketing margin.

Building in normalisation of margins from FY25: We are forecasting ~230% growth in OMCs' FY24e EBITDA despite potentially weaker H2 on lower crude price. We are however penciling a 27% YoY decline in FY25e EBITDA assuming benchmark refining margin of US$ 5.5/bbl, and mid-cycle marketing margins.

Closing gap with fair value zone: We roll forward our valuation to FY26e and discount back to Dec'24. We raise TPs for BPCL to Rs 525 (from Rs 450), HPCL to Rs 450 (Rs 410) and for IOCL to Rs 125 (from Rs 100). We believe the recent rally has helped OMCs close gap with their fair values. This is reflected in 17% and 20% upside for BPCL and HPCL, which are close to our hurdle-rate upside of 15% for a BUY rating. We downgrade IOCL to HOLD with 1% upside to our TP. A visible path towards reducing net debt and delivering on their volume expansion projects will likely act as upside triggers in our view.

Recommendation snapshot

Ticker	Price	Target	Rating
BPCL IN	450	525	BUY
HPCL IN	376	450	BUY
IOCL IN	124	125	HOLD

Price & Target in Rupees | Price as of 21 Dec 2023

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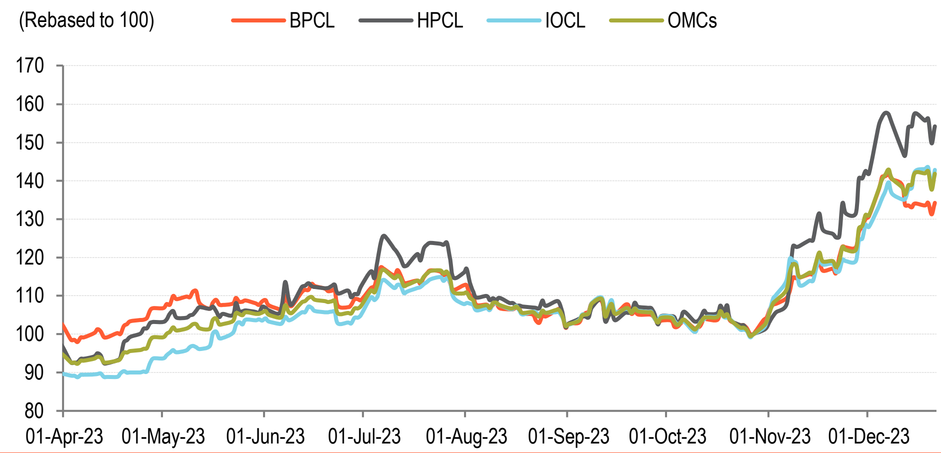
OMCs carry limited stock triggers

OMCs have run up 42% since 27 October amid pullback in crude prices. We believe the current rally largely captures the benefit of sustainable margin expansion for these companies in general and volume expansion for HPCL in particular over FY24-FY26. In our view, there are limited triggers from here to support a further rally in OMCs over the near term.

Fig 1 – OMCs have run up ~40% since 27 Oct'23



Source: Refinitv, BOBCAPS Research

Margin likely to normalise back to lower levels

Although marketing margins in H1FY24 were significantly above historical levels, they were supported by a freeze in retail prices amid a pullback in crude. The recent decline in crude prices and gasoline & diesel crack spread would further improve marketing margins in the short term, but we believe marketing margin is likely to normalise from current levels with or without a tightening of crude prices. With OMCs largely recouping their historical losses, as evidenced from the taming of net debt to FY22 levels, we see little rationale for allowing high marketing margins to continue.

If crude price remains sustainably below US$ 80/bbl, we expect retail fuel prices to be adjusted to deliver the normalised marketing margins earned by OMCs. The normalisation can be achieved either by lowering retail prices and passing on the benefits to consumers or by raising excise duty and capturing benefits in the central budget. We do not believe that OMCs will be allowed to retain the benefits of higher marketing margins.

Although crude prices have dropped to US$ 75/bbl levels before recent tightening on potential disruption of oil trade in Red Sea, we expect a tightening back to the US$ 80-90/bbl range over H2CY24 as OPEC+ regains its ability to rebalance the market after US supply growth moderates and the demand outlook improves once we have better visibility of a soft landing for the US economy.

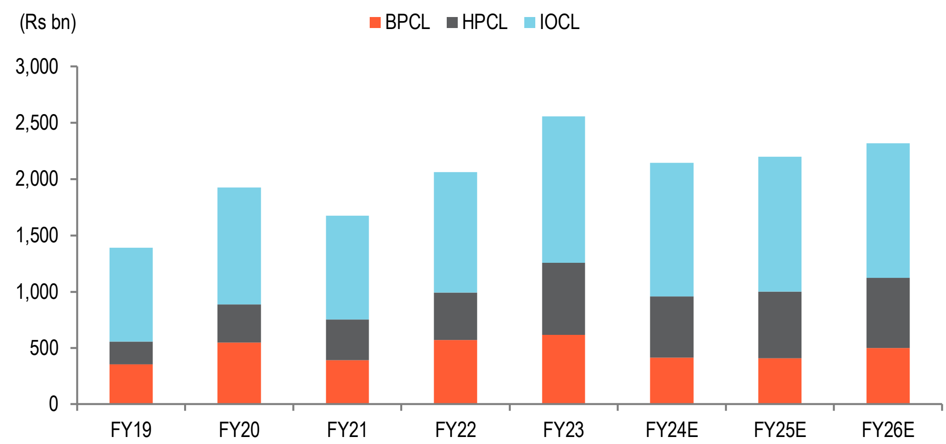
Expansion benefits still some time away for IOCL and BPCL

Amongst OMCs, we expect only HPCL to benefit from the completion of volume expansion (6.7mtpa at Visakh refinery) over the next couple of years. Further margin expansion from bottom residue upgrade projects is likely to accrue over FY26-FY27 as the company starts to stabilise operations. IOCL too has planned expansion projects at three refineries, but we expect most benefits to kick in beyond FY26, factoring in typical project delays. For BPCL, the fruits of volume expansion are further away as its petrochemical capacity addition is scheduled for completion only in FY28.

Net debt likely to remain elevated

While net debt has eased to FY22 levels, we believe it is likely to remain at current elevated levels for OMCs as cash generation from a stable margin environment is likely deployed toward dividend payouts and planned capital expenditure. Although HPCL will be completing two large expansion projects, net debt is likely to stay high for the group entity if we factor in Rajasthan Refinery (RRL) on a proportionate consolidated basis.

Fig 2 – OMCs' net debt has eased back to FY22 levels



Source: Companies, BOBCAPS Research

OMC valuations

Considering downside risks to current margins, we believe it would be inappropriate to value OMCs based on above-mid-cycle refining or marketing margins at this juncture. However, we agree that there is a good case for mid-cycle marketing margin to be captured in earnings base for valuation.

Sustainable positives – factored into our base valuation

- **Sustainability of through-the-cycle marketing margin.** We believe Indian customers have accepted retail petrol and diesel prices that allow OMCs to derive adequate marketing margins at the Indian crude basket average cost of US$ 80-85/bbl. Given the perceived OPEC+ target price range of US$ 70-90/bbl, we believe the sustainability of marketing margins has significantly improved.

  India seems to be demonstrating stable retail prices, allowing OMCs to earn a healthy through-the-cycle margin and a reasonable return on marketing business. OMCs have recently demonstrated the ability to recoup past losses by earning higher profits in H1FY24. Earlier during the Covid period, the government had adjusted excise duty on fuel upward and kept retail prices intact. Separately, the government has consistently compensated OMCs for under-recoveries on controlled products. For instance, in FY23, OMCs received compensation of Rs 220bn for LPG under-recoveries.

- **Refining margin somewhat below mid-cycle levels.** Refining margins have normalised again as trade flows have rebalanced after the shift of Russian supplies away from Europe. With planned refinery capacity additions in China, Asia and the Middle East, the refining market is likely to be well supplied in the medium term even with closures coming through in the western world.

Temporary positives – not in our base valuation

- **Higher-than-average marketing margin.** This is driven by retail price levels above those justified by crude prices. Both retail prices and crude prices can move in a direction to normalise marketing margin.

- **Higher retail prices.** We do believe that either retail prices or excise duty on fuel will be adjusted to keep the average marketing margin in check, should crude prices shift to a sustainable lower level.

- **Crude prices at lower end of the perceived OPEC+ target range.** We believe the OPEC+ group will regain control of market balance as US supply growth moderates in CY24 and the market focus shifts to demand recovery amid expectations of rate cuts in OECD countries. The stock market is already reflecting early signs of a soft landing in the US.

- **Advantage of cheaper Russian crude.** Though India has emerged as the second largest consumer of Russian crude and continues to enjoy a relatively high discount, we view this cheap supply as temporary in nature. The benefits could ease as Russia develops other trade partners, or the western world tightens sanctions, or a resolution is found to the conflict.

Relative weaknesses – not to be forgotten

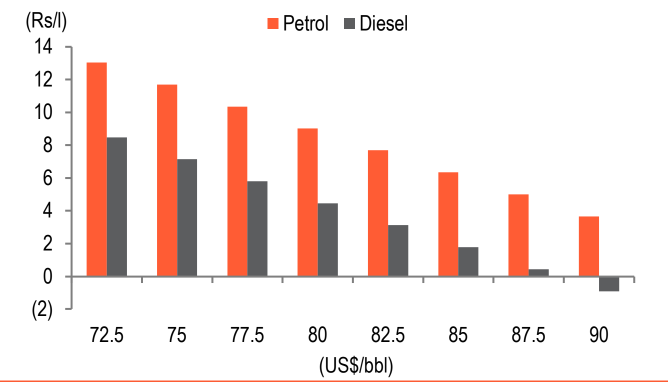
- **Volatile external factors.** Exposure to volatility is now two-fold – firstly, from inherent global factors that alter crude and price demand and secondly, from the added unpredictability of changes of retail prices.
- **Clipped margins with downside risks.** Recent incidences of increase in excise duty amid lower crude prices had curbed margin upside for OMCs. Conversely, frozen retail prices amid a surge in crude prices during FY22 did expose OMCs to unlimited temporary downside risk. Subsequently, retail prices have remained frozen to allow OMCs to recoup losses, but intermittent downside risk continues.

Key drivers

Marketing margin higher than historical range

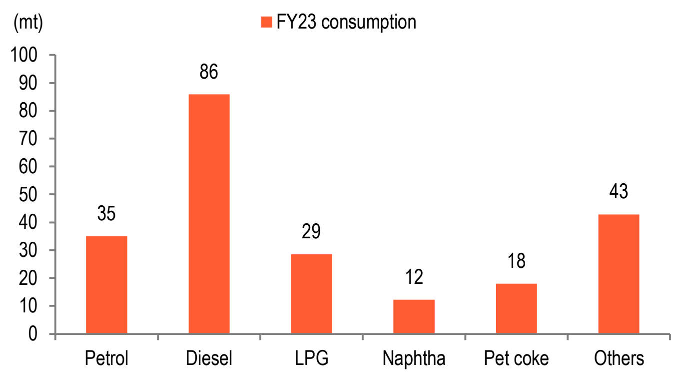
With crude price softening to US$ 75/bbl levels recently, the possibility of a sharp improvement in OMC marketing margins has opened up, should retail prices be left unchanged. At this crude price level, theoretical diesel and petrol marketing margins improve to Rs 7.1/ltr and Rs 11.7/ltr respectively, assuming crack spreads of US$ 20/bbl and US$ 10/bbl. These are significantly higher than the theoretical gross margin of Rs 3/ltr needed for a marketing business to earn its cost of capital.

Fig 3 – Sensitivity of marketing margins on petrol and diesel to changes in crude price



Source: BOBCAPS Research

Fig 4 – Diesel is key to normalisation of marketing margins

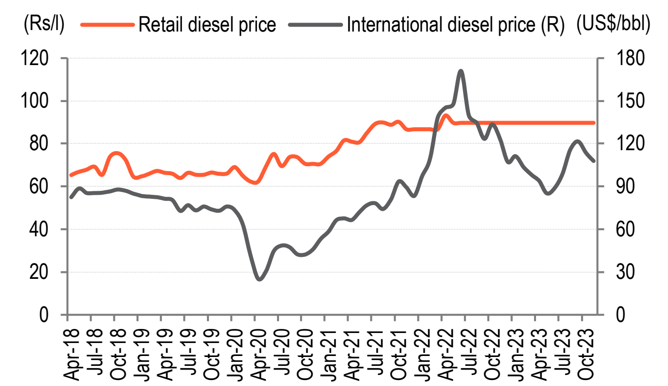


Source: Petroleum Planning & Analysis Cell, BOBCAPS Research

Amongst retail products, diesel is key as it accounts for close to 40% of India's petroleum products consumption. The marketing margin on diesel has returned to positive territory only in Nov'23 following the easing of both crude prices and diesel cracks, but remains relatively modest, particularly compared with petrol. It has a higher crack spread of US$ 20-25/bbl (vs. US$10/bbl for gasoline), as Europe meets its diesel requirements from alternate sources due to the self-imposed ban on Russian supply.

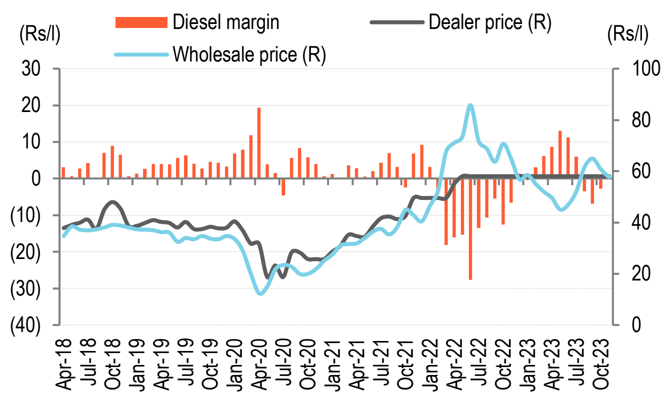
The contribution of gasoline to the overall marketing margin is relatively modest as it accounts for only 15% of consumption. Petrol marketing has been in profit since Aug'22 and the margin has improved again above Rs 7/ltr from Oct'23 as gasoline spreads corrected after the US summer driving season.

Fig 5 – Diesel: Easing of crude and diesel crack spread…



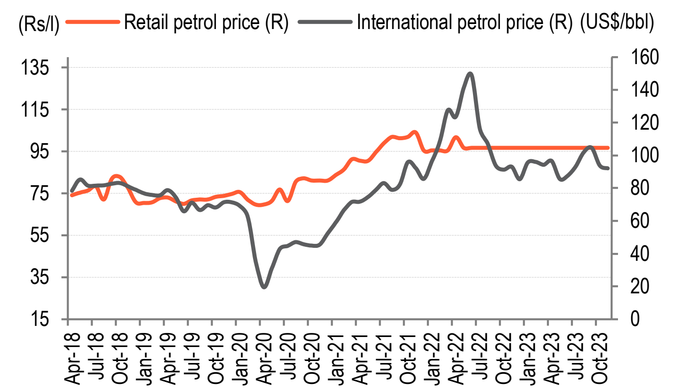
Source: Petroleum Planning & Analysis Cell, BOBCAPS Research

Fig 6 – …brought diesel retail marketing margin back in the black in Nov'23



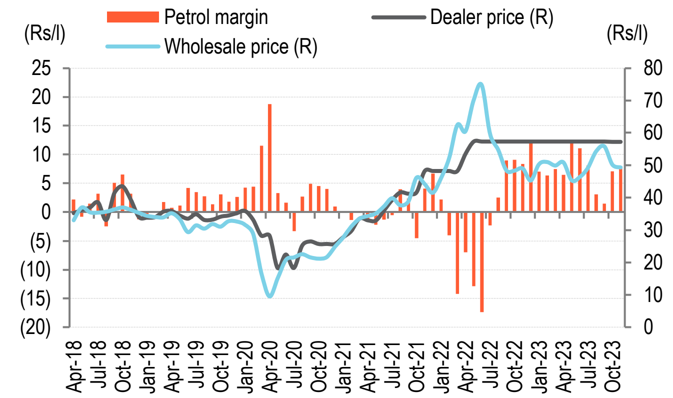
Source: Petroleum Planning & Analysis Cell, BOBCAPS Research

Fig 7 – Petrol: Easing of crack spread post US summer…



Source: Petroleum Planning & Analysis Cell, BOBCAPS Research

Fig 8 – …sharply improved profitability of retail marketing of petrol from Oct'23



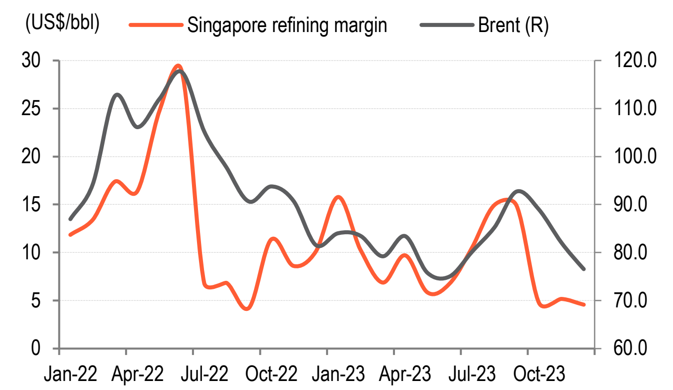
Source: Petroleum Planning & Analysis Cell, BOBCAPS Research

Softer near-term outlook on international price and margins

Crude price and refining margins have eased simultaneously during Nov'23, indicating that the market's focus is shifting to the weakening demand outlook for H1CY24, until monetary conditions loosen in the western world.

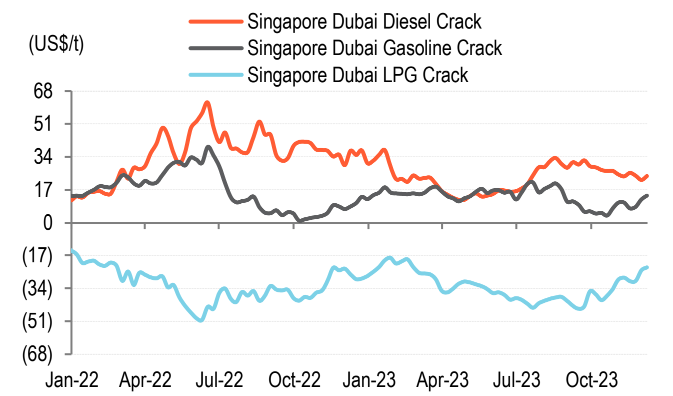
- The decline in crude price is an acknowledgement of weakening global oil demand, particularly from OECD economies, coupled with better-than expected supply growth from the US. This has come as a surprise in November-December, with both IEA (International Energy Agency) and EIA (Energy Information Administration) sharply adjusting their forecasts. While IEA cut its oil demand growth forecast for Q4CY23 by 0.4mbpd in Dec'23, it raised US oil production growth for CY23 by 0.6mbpd over its prior Jun'23 forecast.
- The benchmark refining margin has corrected as gasoline cracks reduced after a seasonal contraction in demand after the US summer, less pressure on Europe to secure diesel, and a return of refineries from maintenance.

Fig 9 – Simultaneous easing of crude price and refining margin indicates weakening demand outlook



Source: Bloomberg, BOBCAPS Research

Fig 10 – Refining margin softened on return of refineries from maintenance



Source: Bloomberg, BOBCAPS Research

CY24: OPEC+ must play a balancing act

Demand growth to normalise

Looking to CY24, both IEA and EIA expect oil demand growth to return to a normal range of 1.1-1.3mbpd, moderating from the growth seen in CY23 off a post-Covid rebound, particularly in China. Demand growth is likely to be largely supported by non-OECD countries. Within OECD countries, while the outlook for the US is improving due to better visibility of a soft landing, the outlook for Europe remains weak. At this point, we also expect China to manage its demand momentum with 5% GDP growth in CY24 and market share gains in petrochemicals. Here, OPEC has a divergent and more bullish view on the demand outlook for CY24 than EIA and IEA as it currently expects a sharper rebound in China and other developing/emerging economies.

Non-OPEC production growth to moderate as well

Both agencies expect non-OPEC liquids production to moderate with a slower increase in US liquids production in CY24. However, EIA still expects close to 75% of incremental demand growth to be met by non-OPEC supply.

For the US, EIA expects net exports of oil and petroleum products to increase by another 0.2mbpd to 2mbpd in CY24 after growth of 0.6mbpd in CY23, supported by an increase in US production of crude oil and hydrocarbon liquids. Particularly, production from the lower 48 states has grown by 0.87mbpd in CY23 and another 0.17mbpd in CY24, backed by an increase in shale oil production.

OPEC+ group key to balancing oil market in CY24

Given uncertainty from demand weakness in OECD countries and moderating growth in US oil supply, the OPEC+ group holds the key to providing direction to oil prices in CY24. During its meeting of 30 November, OPEC+ deepened planned production cuts for Q1CY24 to 1.6mbpd through voluntary cuts by six countries. This is likely to help release the inventory built during CY23. We believe the group will further adjust oil supply to balance out uncertainty in oil markets.

Fig 11 – World oil demand-supply balance

(mbpd)	Absolute			Change (%)	
	CY22	CY23	CY24	CY23	CY24
Oil demand	-	-	-	-	-
IEA	99.4	101.7	102.8	2.3	1.1
EIA	99.2	101.0	102.3	1.8	1.3
OPEC	99.7	102.1	104.4	2.5	2.3
Oil supply growth	**-**	**-**	**-**	**-**	**-**
IEA	100.1	101.9	103.1	1.8	1.2
EIA	100.0	101.6	102.2	1.6	0.6
Non-OPEC Liquids fuel production	-	-	-	-	-
EIA	65.82	68.22	69.08	2.4	0.9
OPEC	65.81	67.59	68.96	1.8	1.4
OPEC NGLs and non-conventionals	-	-	-	-	-
EIA	5.5	5.38	5.41	(0.1)	0.0

(mbpd)	Absolute			Change (%)	
	CY22	CY23	CY24	CY23	CY24
OPEC	5.39	5.44	5.51	0.1	0.1
Implied call on OPEC	-	-	-	-	-
EIA	27.8	27.4	27.9	(0.4)	0.5
OPEC	28.5	29.1	29.9	0.6	0.8

Source: EIA, Short Term Energy Outlook Dec'23, IEA Oil Market Report Dec'23, OPEC Oil Market Report, Dec'23, BOBCAPS Research

Oil price to remain range bound in US$ 80-90 range

We expect oil price to return to range of US$ 80-90 as demand outlook improves in H2CY24 and OPEC+ regains control of oil market balance. Hence, we assume that crude price will average at US$ 85 for FY25 and FY26.

Fig 12 – Crude and refining margin forecasts

Particulars	Unit	FY24E	FY25E	FY26E
Exchange rate	USDINR	82.7	83.0	84.7
Brent	US$/bbl	84.7	85.0	85.0
OMC GRM Indicator excl. windfall taxes	US$/bbl	7.9	5.5	5.5
Sweet-Sour spread	US$/bbl	0.4	0.4	0.4

Source: BOBCAPS Research

Refining margin to remain range bound in CY24

With improved crude oil supply and a return of refining from maintenance, oil product supply has improved. The rebalancing of trade flows and improved availability of natural gas during winter in Europe have led to an easing of heating oil spreads to US$ 20/bbl levels, whereas gasoline spreads have come down below US$ 10/bbl. This has caused refining margins to moderate in Q4CY23. We expect this modest environment to continue into CY24 and assume a US$ 5.5/bbl Singapore Dubai refining margin.

Volume growth – HPCL at an advantage near term

For OMCs, marketing volume growth is likely to remain modest in a range of 4-6% during FY25-FY26 supported by India's economic growth. Though transportation fuels are facing some competition from compressed natural gas and electric vehicles, this is being more than countered by higher economic activity.

For refining and petrochemicals, volume growth will come in stages. Amongst OMCs, HPCL is likely to benefit over FY24-FY26 from expansion of its Visakh refinery by 6.7mtpa to 15mtpa and from 1.2mtpa petrochemicals expansion at subsidiary, HMEL Bhatinda. IOCL is implementing refinery and chemicals expansion projects, but its volume growth is likely to flow through after FY26, accounting for typical delays in implementing such large projects. For BPCL, we expect volume growth from petrochemical expansion at Bina and Kochi only after FY28 as the projects were recently approved by the board.

Green transition capex overhang

Indian government has planned for a capital support of Rs 300bn for OMCs to take up projects, which contribute towards the goals of energy transition, security and net-zero carbon emissions target. Accordingly, BPCL and HPCL boards have approved the rights issue of Rs 180bn and Rs 220bn. Government is separately working on modalities for capital support for HPCL.

OMCs are collectively working on investment plan of about Rs 4trn over next 5 years covering refining expansion, petrochemical integration, transition to natural gas, renewables fuels, and electric vehicles. These plans do not cover entire requirements of net zero targets. For example, BPCL has indicated that they will need to invest an additional Rs 0.9-1.0trn (beyond current 5Y plan of Rs 1.5trn) for mitigation of 15-16mmtpa of carbon footprint. This green transition capex is likely to be an overhang on OMCs in the medium-term.

OMCs: Forecasts and valuation

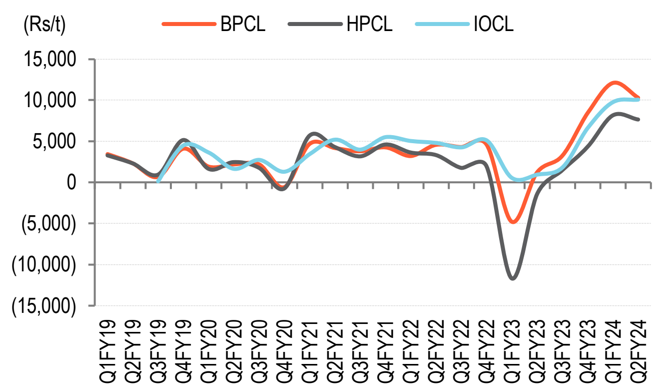
OMCs have largely recouped losses

OMCs have received a compensation for its weaker performance over Apr-Dec'22 by retaining higher-than-normal EBITDA margins over Jan-Sep'23. The improvement was supported by a reduction in crude price and refining margin over Jan-Jun'23. Subsequently in Q2FY24, while higher crude prices compressed marketing margin again, inventory gains due to rise in crude price enabled OMCs to post strong EBITDA.

Looking ahead to Q3FY24, a drop in crude price from Nov'23 has improved marketing margin on petrol and diesel. The benefit of this improvement however is likely to be fully offset by inventory loss caused by more than US$10/bbl QoQ decline in crude prices.

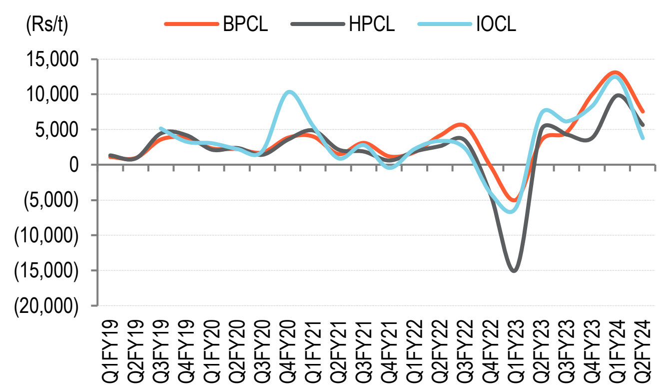
HPCL is the only OMC with higher refining throughput on the back of completion of expansion at Mumbai refinery and ramp-up of 6.7mt expansion at Vizag refinery. Apparent growth in BPCL refining throughput is primarily due to merging of the Bina refinery.

Fig 13 – Combined EBITDA/t including inventory gain



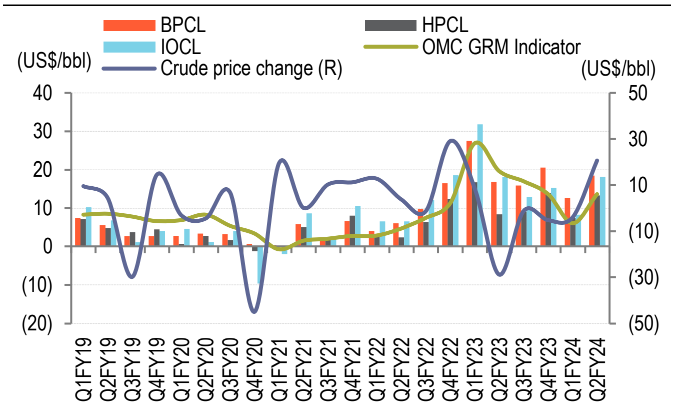
Source: Companies, BOBCAPS Research

Fig 14 – Combined EBITDA/t excluding inventory gain



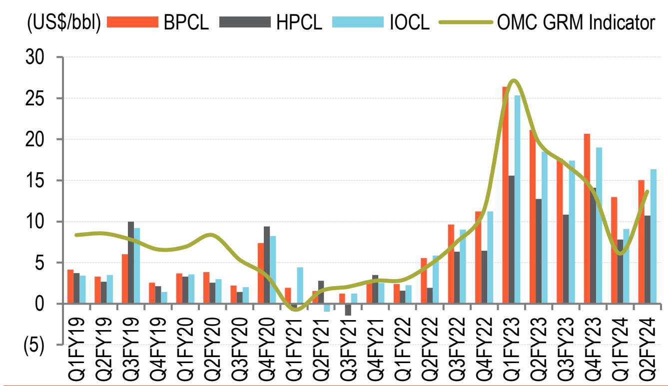
Source: Companies, BOBCAPS Research

Fig 15 – GRM including inventory gains



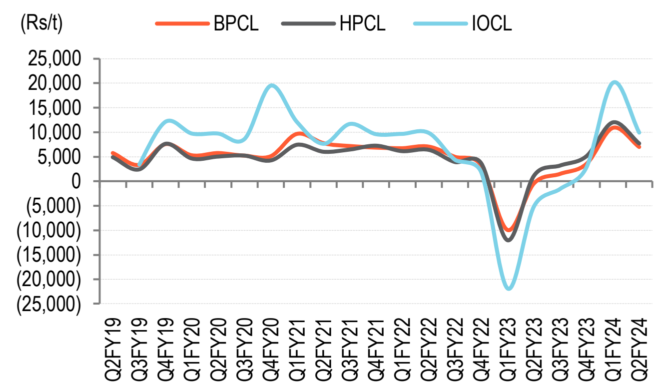
Source: Companies, BOBCAPS Research

Fig 16 – GRM excluding inventory gains



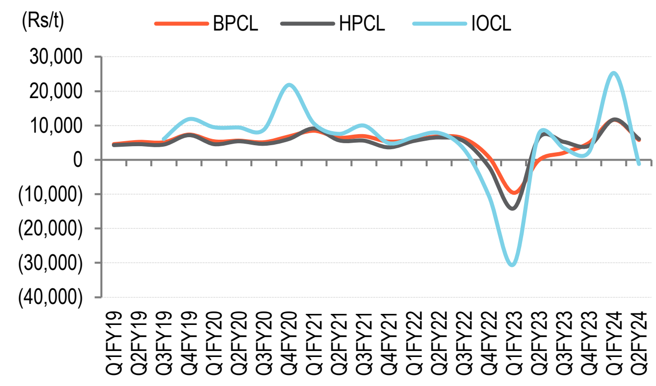
Source: Companies, BOBCAPS Research

Fig 17 – Marketing gross margin/t including inventory gain



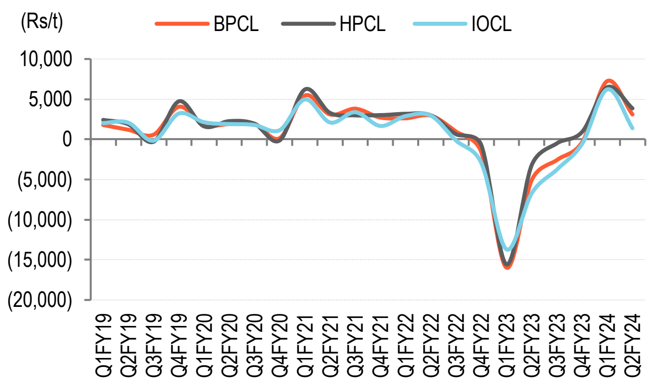
Source: Companies, BOBCAPS Research

Fig 18 – Marketing gross margin/t excluding inventory gain



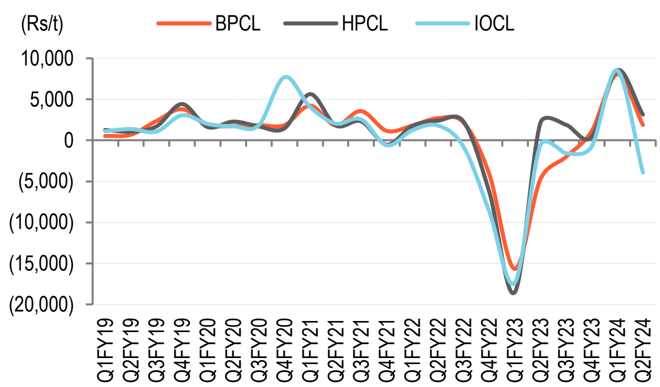
Source: Companies, BOBCAPS Research

Fig 19 – Marketing EBITDA/t including inventory gain



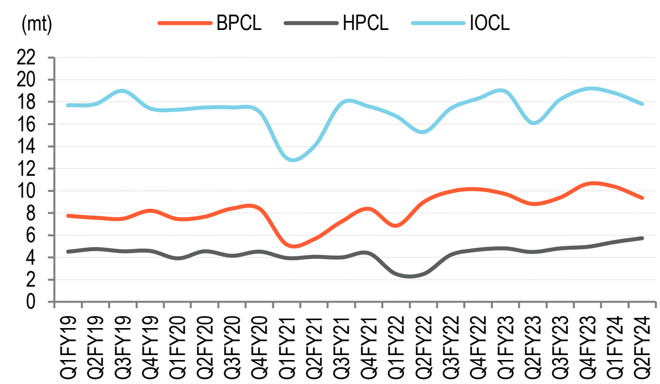
Source: Companies, BOBCAPS Research

Fig 20 – Marketing EBITDA/t excluding inventory gain



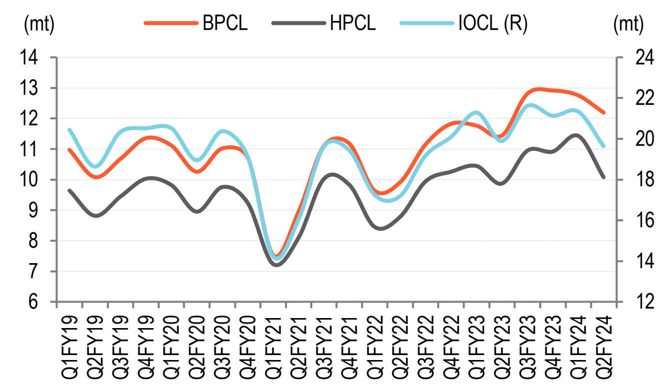
Source: Companies, BOBCAPS Research

Fig 21 – Quarterly refining throughput



Source: Companies, BOBCAPS Research

Fig 22 – Quarterly marketing throughput (domestic)



Source: Companies, BOBCAPS Research

OMCs forecast changes

We are forecasting EBITDA to more than triple in FY24 due to strong performance in H1FY24, helped by improvement in marketing margin. However, we expect H2FY24 to be relatively weaker in H1FY24, with Q3FY24 adversely impacted by inventory losses due to more than US$ 10/bbl reduction in crude prices. We also flag a possibility of normalisation of marketing margin in Q4FY24.

We roll forward our forecasts to FY26. For FY25 and FY26, we assume benchmark Singapore refining margin at US$ 5.5/bbl, moderately below the mid-cycle level, and marketing margins at mid-cycle levels. We also currently assume a significant reduction in the benefit of usage of discounted Russian crude owing to limited visibility.

This results in ~27% YoY easing in FY25E EBITDA for OMCs collectively. For FY26E, we build a 6% YoY growth in EBITDA for OMCs collectively factoring in growth in marketing volumes, and additional improvement in refining EBITDA for HPCL on commissioning of Vizag bottom residue upgrade project. Our FY25 and FY26 EBITDA forecasts for OMCs are broadly in line with Bloomberg consensus.

Amongst OMCs, we expect HPCL to outperform BPCL and IOCL on earnings growth till FY27 on the back of ramp-up of Vizag expansion along with bottom residue upgrade project.

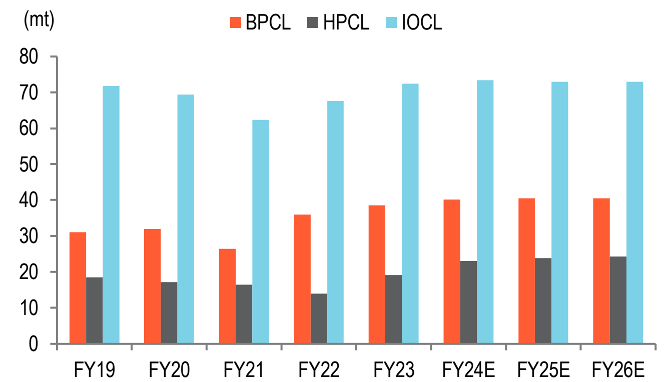
Fig 23 – BOBCAPS estimates vs. Consensus

Company	Actual	New estimates			Consensus			Var (%)		
	FY23	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
EBITDA (Rs bn)										
BPCL	109	359	224	232	345	218	227	4.0	2.8	2.2
HPCL	(72)	208	158	178	209	155	175	(0.4)	1.6	1.6
IOCL	314	600	470	490	587	484	492	2.2	(2.8)	(0.4)
OMCs	**351**	**1,167**	**852**	**899**	**1,142**	**856**	**894**	**2.2**	**(0.6)**	**0.7**
EBITDA growth (%)										
BPCL	-	229.8	(37.7)	3.5	217.2	(36.9)	4.1	-	-	-
HPCL	-	NM	(24.3)	12.7	NM	(25.9)	12.7	-	-	-
IOCL	-	91.1	(21.6)	4.3	87.1	(17.6)	1.7	-	-	-
OMCs	**-**	**232.8**	**(27.0)**	**5.6**	**225.6**	**(25.0)**	**4.3**	**-**	**-**	**-**
Adj PAT (Rs bn)										
BPCL	20	209	111	112	196	108	108	6.8	2.6	3.3
HPCL	(70)	136	86	100	136	84	96	(0.2)	3.2	3.9
IOCL	98	312	212	212	330	221	223	(5.3)	(3.7)	(4.6)
OMCs	**48**	**657**	**410**	**425**	**662**	**413**	**428**	**(0.6)**	**(0.6)**	**(0.7)**

Source: Bloomberg, Companies, BOBCAPS Research

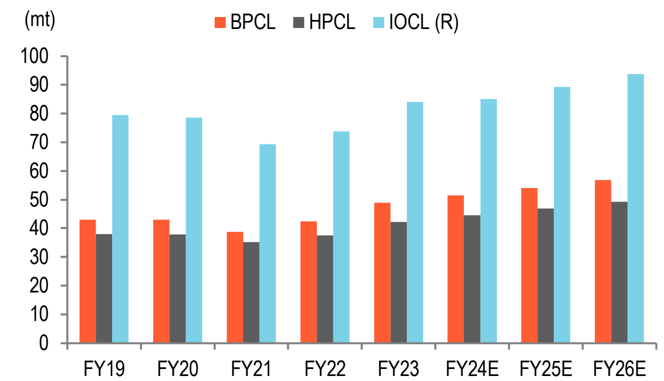
Key assumptions

Fig 24 – Refining throughput



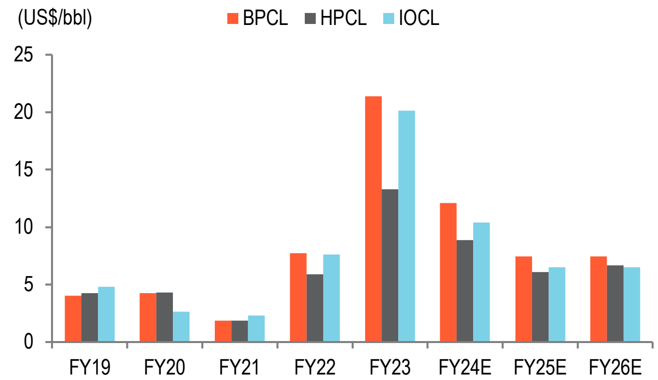
Source: Company, BOBCAPS Research

Fig 25 – Marketing throughput



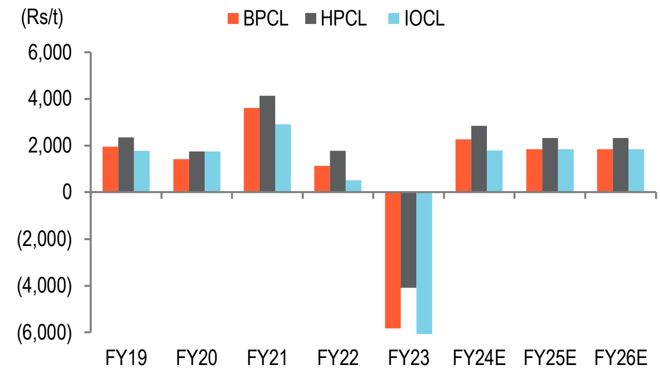
Source: Company, BOBCAPS Research

Fig 26 – GRM excluding inventory gain



Source: Company, BOBCAPS Research

Fig 27 – Marketing EBITDA/t including inventory gain



Source: Company, BOBCAPS Research

OMCs closing the gap with fair-value zone

After ~40% collective run up, we believe OMCs have closed a significant gap with their fair value. This is reflected in 17% and 20% upside for BPCL and HPCL, which are close to our hurdle-rate upside of 15% for a BUY rating. We downgrade IOCL to HOLD with a 1% upside to our TP.

We believe OMCs have started pricing in probable stability of refining and marketing margins under a crude price environment of US$ 80-85/bbl.

For a material outperformance from here, OMCs need to deliver on volume growth. While we expect HPCL to outperform its OMC peers on EBITDA and PAT growth over FY24-FY26, as it delivers on expansion and upgrade projects, we believe HPCL shares are already pricing in a major part of this upside with the recent run-up. While IOCL has commenced material refining expansion projects, we have not yet factored in the benefit in our earnings estimates because of limited visibility on commissioning, and typical delays in such large projects.

Another trigger for OMCs could be a reduction in the net debt supported by operational cash flows. Assuming normalisation of margins from FY25, we expect net debt to remain range-bound for OMCs with operational cash flow marginally short of planned growth capex and expected dividend payouts.

Fig 28 – Valuation of OMC stocks

(Rs bn)	New				Old		EBITDA		Net income		P/B (x)		P/E (x)	
	CMP	Rating	Target price	Upside (%)	Rating	Target price	FY24E	FY25E	FY24E	FY25E	FY23	FY24E	FY24E	FY25E
BPCL	450	BUY	525	16.8	BUY	450	359	224	209	111	1.8	1.4	4.6	8.6
HPCL	376	BUY	450	19.8	BUY	410	208	158	136	86	1.7	1.3	3.9	6.2
IOCL	124	HOLD	125	0.7	BUY	100	600	470	312	212	0.8	0.7	3.6	5.4

Source: Bloomberg, BOBCAPS Research

Company Sections

BPCL – Maintain BUY, TP Rs 525 (vs. Rs 450)

BPCL is the first OMC to align its investment program with the energy transition theme. BPCL's targeted capex program of Rs 1.5trn over next 5 years explicitly avoids investments in refining capacities (except for debottlenecking) and focuses on petrochemicals, upstream, natural gas and renewables.

While BPCL has historically traded at a premium to its OMC peers, reflecting better operational and managerial parameters, we believe the case for a premium does not remain as strong, and we assign it the same target value multiple as the sector. Given a slowdown in commitment to new investments during FY20-22, growth from large capex program will only start accruing post FY28.

Key growth drivers

- **Investment commitments start to accelerate:** The company has indicated a target spend of Rs 1.5tn over the next five years. Broad contours include petrochemicals and improvement of refining efficiencies (Rs 490bn), upstream (Rs 260bn), marketing infrastructure (Rs 250bn), city gas distribution (Rs 260bn), renewables (Rs 120bn) and JV and pipeline projects (Rs 300bn). Pick-up in capex is unlikely until the third year when their Bina petrochemical project ramps up outlay.

- **Bina petrochemical expansion:** BPCL has approved a 1.2mtpa ethylene cracker and a 3.2mt expansion of refining capacity to 11mmtpa at Bina refinery with a capex budget of Rs 490bn and commissioning target by FY28. The petrochemical project focuses on HDPE (high density polyethylene), LDPE (low density polyethylene), PP (polypropylene) and a few aromatic products. The project will benefit from internal availability of naphtha from Bina and Mumbai refineries.

- **Kochi PP project**: BPCL approved a 400ktpa PP project at Kochi refinery at a capex budget of Rs 50.4bn. The project targets commissioning within 46 months implying commissioning in FY27-28.

- **Mozambique LNG and Brazil E&P project:** BPCL has an investment commitment of Rs 260bn for Mozambique LNG (US$ 2bn) and Brazil upstream projects (US$ 1bn). For the Mozambique LNG project, operator is working towards lifting of force majeure by Jan'24 and thereafter commission the project within 4 years, implying start-up in FY28. For the Brazil upstream projects, operator has submitted Field Development plan for approval and is working towards start-up of project by FY28. Due to delays, BPCL could face an increase in project cost in our view.

- **City Gas Distribution:** BPCL has approved a total capex of Rs 260bn for city distribution. The company has a presence across 50 geographic areas, either through wholly-owned subsidiaries or through JVs.

Forecast changes

Our forecasts for BPCL follows our sector forecasts for OMCs – tripling of EBITDA in FY24 followed by a 38% YoY decline in FY25 as we assume normalisation of refining and marketing margin. We expect refining throughput to remain stable and marketing volumes to grow in line with sector. Relative to OMC peers, BPCL refining benefits from higher yield at Bina refinery and ability to use higher sulfur crude at Kochi refinery enabling higher usage of Russian crude. Our EBITDA forecasts over FY24-FY26 are 2%-4% ahead of consensus.

Fig 29 – BPCL: Revised estimates

(Rs bn)	Actuals	New			Consensus			Var (%)			Old	Change (%)
	FY23	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY24E
Revenue	4,732	4,458	4,338	4,425	4,599	4,559	4,607	(3.1)	(4.9)	(4.0)	3,239	37.6
EBITDA	109	359	224	232	345	218	227	4.0	2.8	2.2	128	180.7
Adj Net profit	38	209	111	112	196	108	108	6.8	2.6	3.3	70	200.4
EPS	17.7	98.2	52.3	52.6	100.2	51.7	50.8	(2.0)	1.1	3.5	33	195.2

Source: Company, Bloomberg, BOBCAPS Research

Fig 30 – BPCL: Key assumptions

(Rs bn)	FY23	FY24E	FY25E	FY26E
Refining EBITDA	403	239	121	124
Marketing EBITDA	(293)	120	102	108
Consolidated EBITDA	**110**	**359**	**224**	**232**
YoY Growth (%)	(42.4)	227.8	(37.7)	3.5
Throughput (mt)	38.53	40.1	40.5	40.5
YoY Growth (%)	7.4	4.1	1.0	0.0
Domestic marketing sales (mt)	48.9	51.5	54.1	56.8
YoY Growth (%)	15.1	5.2	5.1	5.1
Exchange rate	80.4	82.7	83.0	84.7
Crude price (US$/bbl)	95.5	85.0	85.0	85.0
GRM (US$/bbl)	20.2	12.3	7.4	7.4
Marketing EBITDA (Rs/t)	(5,993)	2,330	1,895	1,898

Source: Company, BOBCAPS Research

Valuation

We maintain BUY for BPCL with a 17% upside to our target price. With 34% run-up in stock price since 27 Oct'23, the stock has closed a substantial gap with fair value zone with current upside closer to our hurdle rate of 15% for retaining the rating on stock at BUY. The stock is currently trading at a ~5.2 FY26E EV/EBITDA, below our target multiple of 6x EV/EBITDA for the sector.

We roll forward our valuation to FY26 earnings, and discount it back to Dec'24 to arrive at a 1Y forward TP of Rs 525 (from Rs 450). We continue to value the refining and marketing business at an unchanged multiple of 6x 1Y fwd EV/EBITDA, in line with our target multiple of 6x for OMC peers. We now assume a 30% discount (from 20% earlier) on the market value of its investments in IGL, OINL and PLNG, which is in line with our valuation approach for all OMCs.

Fig 31 – BPCL: Valuation summary

Business segments	New		Comments	Old
	EV (Rs bn)	Value (Rs/sh)		Value (Rs/sh)
Refining				
Standalone including Bina refinery	743	349	6x FY26E EBITDA	260
Marketing	647	304	6x FY26E EBITDA	314
Total core business EV, Mar'25	**1,390**	**653**		**574**
Less: Net Debt FY25E	419	197		196
Equity value of core business, Mar'25	**971**	**456**		**378**
Investments	111	52	Investments in PLNG, OINL, IGL @ 30% holding discount to CMP	41
Total E&P	62	29	At carrying value estimated by BPCL as of FY23	29
Total equity value for BPCL, Mar'25	**1,144**	**537**		**449**
Equity value discounted to Dec'24	**-**	**525**		**-**
Target price (rounded to nearest Rs5)	**-**	**525**		**450**

Source: BOBCAPS Research

HPCL – Maintain BUY, TP Rs 450 (vs. Rs 410)

Amongst OMCs, we believe HPCL is well positioned to deliver profit growth ahead of other OMCs over FY23-FY26. This will be aided by the completion of investments worth Rs 320bn on its books and Rs 212bn by its affiliate, HMEL. The company has underperformed peers from FY22 till H1FY24 owing to delays in the stabilisation of expanded capacity at its Mumbai and Visakh refineries. However, it is important to look beyond the initial stabilisation phase and focus on earnings growth potential after delivery on projects.

Not yet past peak debt cycle. While Rajasthan Refinery (RRL) is marked as an affiliate (with an intention of paring down holding to 49% stake from current 74% stake), it is a material project, and should be considered on a pro-rata consolidation basis to evaluate overall group leverage. While the consolidated net debt will start coming down after implementation of expansion projects including at HMEL, implementation of RRL together with continuing higher capex spend and dividend payouts will keep group net debt at an elevated level.

Key growth drivers

- **Capex:** Management is guiding for a total capex of Rs 740bn over next 5 years with an average annual capex spend of Rs 140-150bn. Broad capex split includes refining capacity expansion (Rs 310bn), equity investment in JVs and subsidiaries (Rs 100bn), expansion of CGD network (Rs 20bn), biofuels and renewables (Rs 10bn), and other projects including downstream marketing (Rs 300bn).

- **Vizag capacity expansion (by 6.7mtpa to 15mtpa):** HPCL has ramped up Vizag capacity throughput to 13.6-13.7mmtpa levels by Q3FY24 and likely to achieve 15mmtpa with commissioning of bottom residue upgrade project.

- **Vizag bottom reside upgradation project:** HPCL targets mechanical completion by Jan-Feb'24 and commissioning by FY25. The project aims to improve distillate yield to 85-86% (from current 75%) and could aid US$ 3-4/bbl improvement in refining margin for Visakh refinery at full utilisation. We remain conservative and only account for US$ 2/bbl improvement in Visakh refinery GRM in FY26 at this stage.

- **HMEL Bhatinda petrochemical project:** HMEL has ramped up petrochemical project to 70% utilisation and look forward to material upside in earnings as the project utilisation rate increases beyond 90% and petrochemical margin environment stabilises to mid-cycle margin.
- **Rajasthan refinery:** Management is guiding for mechanical completion of the Rajasthan refinery project by Mar'24, progressive commissioning over FY25 and achievement of 80% utilisation of refinery within 12 months of commissioning. RRL has spent Rs 370bn in capex out of total plan of Rs 730bn. RRL has a potential to earn US$ 20/bbl of gross refining margin in current environment and deliver EBITDA of Rs 80bn upon full operation of both refining and petrochemical projects.

Forecast changes

We build in a sharp turnaround in EBITDA to Rs 209bn in FY24E from a loss in FY23 as HPCL has stabilised 2mtpa Mumbai refinery expansion and have started clocking benefit of higher refining throughput at Visakh from ramp-up of the 6.7mtpa expansion. Following our assumptions for OMCs, we expect a 24% pullback in EBITDA in FY25E on our assumptions of normalisation of refining and marketing margins. In FY26, we expect HPCL to clock a 13% YoY growth in EBITDA, ahead of its OMC peers as they stabilise bottom residue upgrade project at Visakh refinery. We still conservatively pencil in only US$2/bbl upside in gross refining margin at Visakh refinery in FY26 against the management guidance of US$3/bbl upside factoring in typical delays in stabilising to 100% utilisation. We do not account for earnings accretion from Rajasthan Refinery at this stage due to typical challenges in delivering large-scale greenfield refinery on time. Our EBITDA forecasts are broadly in line with consensus over FY24-FY26.

Fig 32 – HPCL: Revised estimates

(Rs bn)	Actuals	New			Consensus			Var (%)			Old	Change (%)
	FY23	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY24E
Revenue	4,392	4,068	4,088	4,200	4,106	4,056	4,176	(0.9)	0.8	0.6	3,737	8.8
EBITDA	(72)	208	158	178	209	155	175	(0.4)	1.6	1.6	144	44.6
Adj Net profit	(70)	136	86	100	136	84	96	(0.2)	3.2	3.9	99	37.2
EPS (Rs)	(49)	95.7	60.8	70.6	89.1	62.3	66.0	7.4	(2.3)	7.0	68.1	40.6

Source: Company, Bloomberg, BOBCAPS Research

Fig 33 – HPCL: Key assumptions

(Rs bn)	FY23	FY24E	FY25E	FY26E
Refining EBITDA	102	81	48	63
Marketing EBITDA	(177)	128	109	115
Consolidated EBITDA	**(72)**	**208**	**158**	**178**
YoY Growth (%)	(134.6)	388.9	(24.3)	12.7
Throughput (mt)	19.1	23.0	23.8	24.3
YoY Growth (%)	36.6	20.5	3.5	1.9
Domestic Marketing sales (mt)	42.2	44.7	46.9	49.3
YoY Growth (%)	12.7	2.8	1.1	1.3
Exchange rate	80.4	82.7	83.0	84.7
Crude price (US$/bbl)	95.5	85.0	85.0	85.0
GRM (US$/bbl)	12.1	8.8	6.1	6.7
Marketing EBITDA (Rs/t)	(4,206)	2,750	2,250	2,250

Source: Company, BOBCAPS Research

Valuation

We maintain BUY for HPCL with a 20% upside to our target price. Our TP increases to Rs 450 (from Rs 410) as we roll forward our valuation to FY26E and discount it back to Dec'24 to arrive at a 1Y forward target price. We value the refining and marketing business at an unchanged multiple of 6x 1Y forward EV/EBITDA, in line with our target multiple of 6x for OMC peers. We now assume a 30% discount (from 20% earlier) on the market value of its quoted investments, which is in line with our valuation approach for all OMCs.

Fig 34 – HPCL: Valuation summary

Business segments	New		Comments	Old
	EV (Rs bn)	Value (Rs/sh)		Value (Rs/sh)
Refining standalone	376	265	6x FY26E EBITDA	188
Marketing	689	486	6x FY26E EBITDA	410
Refining and marketing EV, Mar'25	**1,065**	**751**		**598**
Less: Net Debt FY25E	599	422		291
HMEL Bhatinda equity value	44	31	6x FY26E	41
Equity value of core business, Mar'25	**511**	**360**		**349**
Investment in MRPL and Oil India	36	25	30% holding discount to CMP	10
Other subsidiaries/ JVs/ Affiliates	109	77	At cost	51
Total equity value for HPCL, Mar'25	**656**	**462**		**410**
Total equity value discounted to Dec'24	**-**	**451**		**-**
Target price rounded to nearest Rs 5	**-**	**450**		**410**

Source: BOBCAPS Research

IOCL – Downgrade to HOLD, TP Rs 125 (vs. Rs 100)

While IOCL has embarked on the most aggressive refining and petrochemical expansion plan amongst OMCs, most of its projects target delivery by FY25. Considering typical delays associated with large-scale expansion projects, we have not accounted for their benefits as we await better visibility to their completions.

Key growth drivers

- **Investment plan:** With an annual target of Rs 300-350bn investment, IOCL is likely to invest Rs1.5-1.8trn over the next 5 years. The major projects identified by IOCL accounts for Rs 1.1trn of investments, which includes a spend of Rs ~600bn on refining expansions, Rs 280bn on petrochemicals and Rs 190bn on pipeline projects.

- **Refining capacity expansion:** IOCL has committed to expanding refining capacity by 25mmtpa to 107mmtpa along with associated value-added projects. The company is currently implementing expansion projects at Panipat Refinery (15mmtpa to 25mmtpa), Gujarat Refinery (13.7mmtpa to 18mmtpa), CPCL-CBR Nagapattinam refinery (9mmtpa greenfield), Barauni (6mmtpa to 9mmtpa), Digboi and Guwahati refineries.

- **Petrochemicals integration:** The company is enhancing its petrochemicals integration at Paradip, Panipat and Gujarat refineries to ~20%. It aims to increase total petrochemical capacity by 70% from the current 3.2mtpa and take the petrochemical integration index to 14-15% of overall throughput by 2030.

- **Pipeline projects:** IOCL is progressing three large projects with a collective investment of Rs 190bn. These include two crude pipelines (one connecting Mundra to Panipat and second connecting Haldia to Barauni) and one natural gas pipeline in southern India.

Fig 35 – IOCL: Current status of key projects

Name of the project	Project cost (Rs bn)	Project spend (Rs bn)	Completion date	Physical progress (%)
Refinery and Petrochemicals				
Acrylics/ Oxo Alcohol project, Gujarat refinery	58.9	34.7	Jan'24	95
Gujarat refinery (13.7mt to 18mt) and petrochemical and lube integraton	156.3+33.1	53.3	Aug'24	59.9
PX-PTA complex, Paradip	138.1	47.4	Jul'25	77.1
Barauni refinery (6mt to 9mt) and petrochemical	128.9+19.2	72.3	Dec'24	71.1
Panipat refinery (15mt to 25mt) and petrochemical	313.8+32.5	69.5	Dec'25	44.6
Pipelines				
New Mundra Panipat crude oil pipeline (Gujarat, Haryana, and Rajasthan)	90.3	43.2	Dec'24	49.04
Ennore - Thiruvallur - Bengaluru - Puducherry - Nagapattinam - Madurai - Tuticorin natural gas pipeline	60.3	53.9	Jan'24	98.94
30-inch Haldia Barauni crude oil pipeline	36.9		Jan'24	NA

Source: Company, Infrastructure and Project Monitoring Division, National Investment Promotion and Facilitation Agency, BOBCAPS Research

Forecast changes

We are forecasting an annual EBITDA change of +91%/-22%/+4% in FY24/FY25/FY26. This is in line with the trend for OMC peers, wherein we are building a sharp recovery in FY24 on strong H1 performance, and normalisation of refining and marketing margins from FY25.

While IOCL is pursuing an annual investment plan of Rs 300bn-350bn, most of its large expansion projects are targeted for completion in FY25 and beyond. We have not built the same into our estimates as we await more information on these projects. Our EBITDA forecasts are within +2% to -3% range versus consensus over FY24-FY26.

Fig 36 – IOCL: Revised estimates

(Rs bn)	Actuals	New			Consensus			Var (%)			Old	Change (%)
	FY23	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY24E
Revenue	8,418	8,137	7,961	8,131	7,856	7,978	7,912	3.6	(0.2)	2.8	6,216	30.9
EBITDA	314	600	470.2	490	587	484	492	2.2	(2.8)	(0.4)	401	49.6
Adj Net profit	98	312	212	212	330	221	223	(5.3)	(3.7)	(4.6)	192	63.1
EPS (Rs)	7.1	22.7	15.4	15.4	24.3	17.7	17.5	(6.7)	(12.6)	(12.0)	20.9	8.7

Source: Company, Bloomberg, BOBCAPS Research

Fig 37 – IOCL: Key assumptions

(Rs bn)	FY23	FY24E	FY25E	FY26E
Refining	678	307	155	159
Marketing	(553)	161	173	182
Petrochemicals	8	15	30	35
Pipeline	73	76	79	82
Others	(19)	8	16	16
CPCL EBITDA	57	33	16	17
Consolidated EBITDA	**244**	**600**	**470**	**490**
YoY Growth (%)	(47.9)	145.7	(21.6)	4.3
Refining throughput (mt)	72.4	73.4	73.0	73.0
YoY Growth (%)	7.0	1.4	(0.5)	0.0
Domestic Marketing sales (mt)	84.0	85.0	89.3	93.8
YoY Growth (%)	13.9	1.2	5.0	5.1
Pipeline throughput (mt)	95.1	99.3	102.8	106.3
YoY Growth (%)	14.2	4.4	3.5	3.4
Exchange rate	80.4	82.7	83.0	84.7
Crude price (US$/bbl)	93.5	85.0	85.0	85.0
GRM (US$/bbl)	19.5	10.4	6.5	6.5
Marketing EBITDA (Rs/t)	(6,210)	1,800	1,850	1,850
Petrochemicals EBITDA (US$/t)	43	59	121	139

Source: Company, BOBCAPS Research

Valuation

We raise our TP to Rs 125 (from Rs 100) as we roll forward valuation to FY26 and discount it back to Dec'24 to arrive at a 1Y forward target price. We downgrade the stock to HOLD from BUY with a 1% upside.

We value the refining and marketing business at an unchanged multiple of 5.5x 1Y fwd EV/EBITDA, a marginal discount to our target multiple of 6x for OMC peers. With inland refineries, IOCL needs to maintain a higher level of inventory for its operations, which tends to increase earnings volatility relative to peers. Currently, we do not capture the benefits of earnings ramp-up from expansion projects under implementation owing to less visibility on implementation timeline and typical delays associated with such large projects.

Fig 38 – IOCL: Valuation summary

Business segments	New		Comments	Old
	EV (Rs bn)	Value (Rs/sh)		Value (Rs/sh)
Refining	872	63	5.5x FY26E EBITDA	40
Marketing	1,000	73	5.5x FY26E EBITDA	69
Petrochemicals	211	15	6x FY26E EBITDA	25
Pipeline	493	36	6x FY26E EBITDA	31
Others	95	7	6x FY26E EBITDA	(3)
Total core business EV, Mar'25	**2,671**	**194**		**162**
Less: Net Debt FY25E	1,187	86		78
Equity value of core business, Mar'25	**1,484**	**108**		**84**
Investments	264	19	Listed holdings at 30% holding discount to CMP, and others at cost	16
Total equity value for IOCL, Mar'25	**1,749**	**127**		**100**
Equity value discounted to Dec'24	**-**	124		-
Target price rounded to nearest Rs 5	**-**	**125**		**100**

Source: BOBCAPS Research

Key risks for OMCs

OMC valuations are highly sensitive to refining and marketing profitability. While higher profitability are upside risks to our HOLD call on IOCL, lower profitability are downside risks to our BUY Call on BPCL and HPCL and HOLD Call on IOCL. Key factors that can impact our refining and marketing profitability are as follows:

- We assume oil price remaining within the US$80-90/bbl range over FY25-26 as OPEC regains control to rebalance the market. Any material downside below the range has a potential to improve marketing margin for OMCs if retail price is retained at current levels.
- High oil prices expose OMCs to the risk of under-recovery on marketing margins for retail sales of petrol and diesel, especially as excise duties on these fuels remain high even after partial rollback in Nov'21.
- We currently assume only a modest benefit due to use of Russian crude in FY25 and FY26. If Russian discount continues at a current level, this could lead to higher refining margin than our forecasts for FY25-FY26.
- An extended slowdown in global economies could lead to below-expected refining margins and petrochemical spreads for longer period. An adverse change in global demand-supply balance for the refining or petrochemical product chain could also lower margins versus our current assumptions.
- Market share losses on fuel product sales could result in the below-expected volumes and affect marketing business earnings.
- OMCs are implementing large expansion projects. Any fast tracking or delay in implementation of projects beyond our current assumptions could result in higher or lower earnings estimates than our current assumptions.
- Refiners are exposed to the requirement of additional investments to lower their carbon footprint, including potential investments in green hydrogen.
- IOCL's earnings carry relatively higher volatility considering its higher inventory days than other OMCs.
- Adverse pipeline tariff orders or regulations by PNGRB mandating third-party use of pipelines could hurt pipeline business earnings.

Stock performance

Fig 39 – BPCL

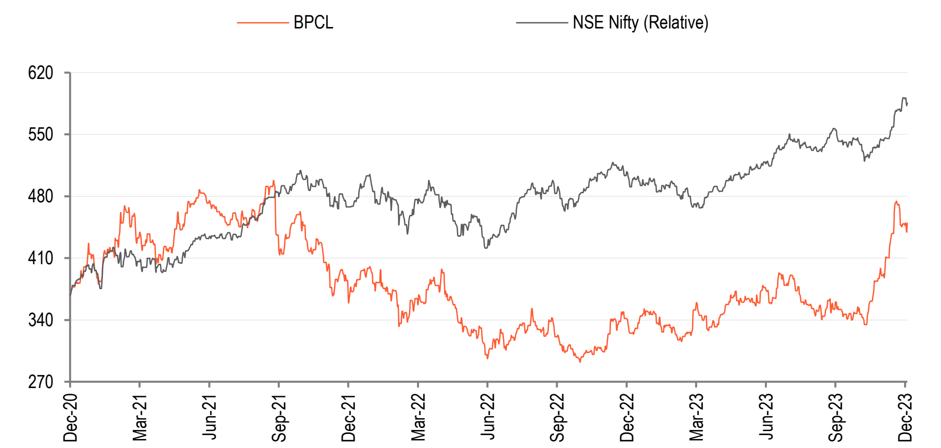


Fig 40 – HPCL

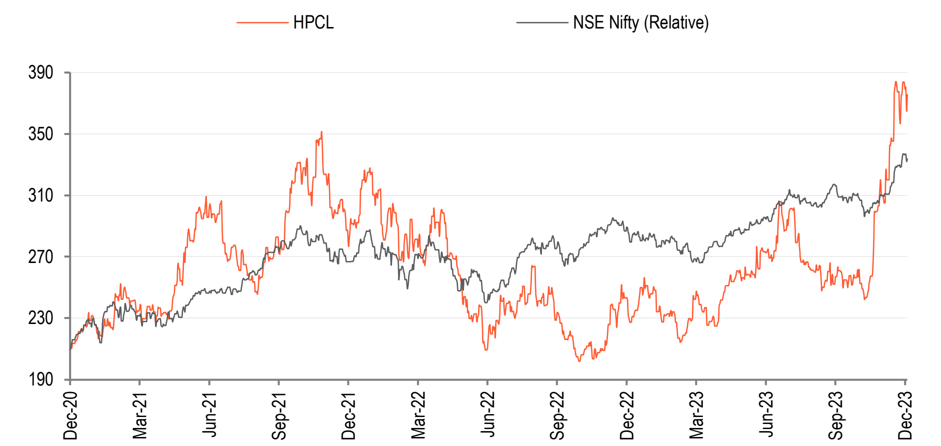
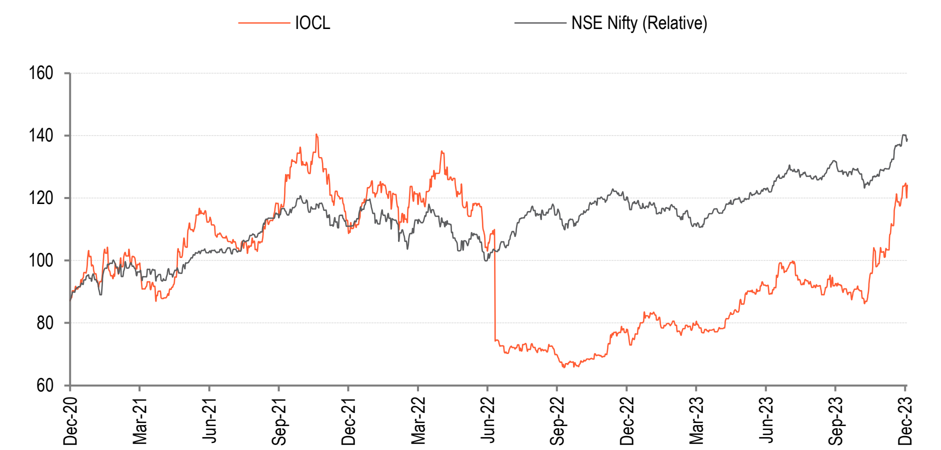


Fig 41 – IOCL



Source: NSE

Financials – BPCL

Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Total revenue	**3,467,911**	**4,731,872**	**4,457,627**	**4,337,978**	**4,425,157**
EBITDA	191,373	108,881	359,112	223,867	231,702
Depreciation	(54,344)	(63,688)	(66,956)	(72,466)	(79,773)
EBIT	137,030	45,193	292,156	151,401	151,929
Net interest inc./(exp.)	(26,056)	(37,454)	(36,992)	(30,685)	(32,809)
Other inc./(exp.)	22,685	14,982	10,630	13,891	16,048
Exceptional items	11,352	(16,429)	0	0	0
EBT	133,659	22,721	265,794	134,607	135,168
Income taxes	(43,552)	(6,901)	(70,833)	(37,816)	(37,957)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	(15,357)	(21,919)	(14,247)	(14,532)	(14,823)
Reported net profit	**116,815**	**21,311**	**209,209**	**111,324**	**112,034**
Adjustments	0	0	0	0	0
Adjusted net profit	**108,873**	**19,721**	**209,209**	**111,324**	**112,034**

Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Accounts payables	303,477	240,243	260,719	261,601	266,833
Other current liabilities	312,517	303,281	445,534	451,512	453,221
Provisions	31,137	29,375	29,375	29,375	29,375
Debt funds	645,342	693,760	503,760	503,760	553,760
Other liabilities	63,757	79,206	82,747	84,638	86,536
Equity capital	21,295	21,295	21,295	21,295	21,295
Reserves & surplus	497,762	513,929	649,425	727,017	805,194
Shareholders' fund	519,056	535,224	670,720	748,312	826,489
Total liab. and equities	**1,875,286**	**1,881,088**	**1,992,855**	**2,079,198**	**2,216,214**
Cash and cash eq.	74,371	76,520	87,375	91,585	48,446
Accounts receivables	97,075	67,238	68,851	67,003	68,350
Inventories	421,787	380,692	427,578	429,026	437,606
Other current assets	61,741	62,171	56,539	56,539	56,539
Investments	184,155	217,007	232,007	257,007	307,007
Net fixed assets	826,975	854,711	881,680	931,139	1,013,291
CWIP	154,330	162,489	178,565	186,640	224,715
Intangible assets	12,040	12,040	12,040	12,040	12,040
Deferred tax assets, net	3,247	4,860	4,860	4,860	4,860
Other assets	39,566	43,360	43,360	43,360	43,360
Total assets	**1,875,286**	**1,881,088**	**1,992,855**	**2,079,198**	**2,216,214**

Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Cash flow from operations	**142,807**	**92,757**	**388,937**	**179,050**	**174,671**
Capital expenditures	(221,770)	(99,585)	(110,000)	(130,000)	(200,000)
Change in investments	31,518	(31,624)	(34,224)	(25,000)	(50,000)
Other investing cash flows	10,646	14,982	10,630	13,891	16,048
Cash flow from investing	**(179,606)**	**(116,226)**	**(133,594)**	**(141,109)**	**(233,952)**
Equities issued/Others	365	0	0	0	0
Debt raised/repaid	100,023	48,418	(190,000)	0	50,000
Interest expenses	0	0	0	0	0
Dividends paid	(34,071)	(8,518)	(73,713)	(33,731)	(33,857)
Other financing cash flows	(99,604)	3,375	0	0	0
Cash flow from financing	**(33,286)**	**43,275**	**(263,713)**	**(33,731)**	**16,143**
Chg in cash & cash eq.	**(70,086)**	**19,806**	**(8,369)**	**4,210**	**(43,139)**
Closing cash & cash eq.	**11,015**	**42,173**	**17,375**	**21,585**	**(21,554)**

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24E	FY25E	FY26E
Reported EPS	54.9	10.0	98.2	52.3	52.6
Adjusted EPS	51.1	9.3	98.2	52.3	52.6
Dividend per share	16.0	4.0	34.6	15.8	15.9
Book value per share	243.8	251.3	315.0	351.4	388.1

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24E	FY25E	FY26E
EV/Sales	0.4	0.3	0.4	0.3	0.3
EV/EBITDA	7.6	13.4	4.4	6.7	6.0
Adjusted P/E	8.8	48.5	4.6	8.6	8.5
P/BV	1.8	1.8	1.4	1.3	1.2

DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24E	FY25E	FY26E
Tax burden (Net profit/PBT)	75.1	313.4	78.7	82.7	82.9
Interest burden (PBT/EBIT)	105.8	13.9	91.0	88.9	89.0
EBIT margin (EBIT/Revenue)	4.0	1.0	6.6	3.5	3.4
Asset turnover (Rev./Avg TA)	199.0	251.9	230.1	213.1	206.0
Leverage (Avg TA/Avg Equity)	3.3	3.6	3.2	2.9	2.7
Adjusted ROAE	20.6	3.7	34.7	15.7	14.2

Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24E	FY25E	FY26E
YoY growth (%)					
Revenue	50.7	36.4	(5.8)	(2.7)	2.0
EBITDA	(10.1)	(43.1)	229.8	(37.7)	3.5
Adjusted EPS	(9.9)	(81.9)	960.8	(46.8)	0.6
Profitability & Return ratios (%)					
EBITDA margin	5.5	2.3	8.1	5.2	5.2
EBIT margin	4.0	1.0	6.6	3.5	3.4
Adjusted profit margin	3.1	0.4	4.7	2.6	2.5
Adjusted ROAE	20.6	3.7	34.7	15.7	14.2
ROCE	8.5	(0.4)	17.8	9.0	8.3
Working capital days (days)					
Receivables	9	6	6	6	6
Inventory	41	34	39	41	41
Payables	26	21	22	23	23
Ratios (x)					
Gross asset turnover	3.7	4.3	3.8	3.4	3.1
Current ratio	0.8	0.8	0.7	0.7	0.7
Net interest coverage ratio	5.3	1.2	7.9	4.9	4.6
Adjusted debt/equity	1.1	1.2	0.6	0.6	0.6

Source: Company, BOBCAPS Research | Note: TA = Total Assets

Financials – HPCL

Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Total revenue	**3,499,132**	**4,407,093**	**4,082,690**	**4,103,187**	**4,214,996**
EBITDA	102,443	(72,071)	208,214	157,551	177,555
Depreciation	(40,004)	(45,602)	(52,257)	(60,413)	(67,645)
EBIT	62,440	(117,672)	155,957	97,138	109,910
Net interest inc./(exp.)	(9,973)	(21,741)	(24,713)	(24,062)	(25,643)
Other inc./(exp.)	24,389	14,659	20,000	20,000	20,000
Exceptional items	0	0	0	0	0
EBT	76,856	(124,754)	151,244	93,076	104,267
Income taxes	(18,494)	30,037	(38,364)	(23,729)	(26,596)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	(14,581)	(24,915)	(22,936)	(16,942)	(22,442)
Reported net profit	**72,942**	**(69,802)**	**135,816**	**86,290**	**100,113**
Adjustments	0	0	0	0	0
Adjusted net profit	**72,942**	**(69,802)**	**135,816**	**86,290**	**100,113**

Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Accounts payables	264,773	229,132	251,639	255,313	262,038
Other current liabilities	71,618	63,370	106,150	108,100	110,615
Provisions	25,898	27,667	27,667	27,667	27,667
Debt funds	484,978	706,710	621,710	671,710	706,710
Other liabilities	284,973	263,883	300,724	305,621	311,109
Equity capital	14,189	14,189	14,189	14,189	14,189
Reserves & surplus	399,853	308,443	402,922	463,645	535,203
Shareholders' fund	414,042	322,633	417,111	477,834	549,393
Total liab. and equities	**1,546,282**	**1,613,395**	**1,725,002**	**1,846,245**	**1,967,532**
Cash and cash eq.	62,851	65,518	81,876	79,785	85,674
Accounts receivables	63,403	68,324	66,866	67,203	69,041
Inventories	355,147	295,750	271,770	275,738	283,002
Other current assets	66,145	65,758	64,265	64,265	64,265
Investments	128,403	178,097	224,533	275,975	321,917
Net fixed assets	578,045	680,825	820,169	931,356	1,005,311
CWIP	289,072	256,074	192,474	148,874	135,274
Intangible assets	3,216	3,049	3,049	3,049	3,049
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
Total assets	**1,546,282**	**1,613,395**	**1,725,002**	**1,846,245**	**1,967,532**

Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Cash flow from operations	**134,841**	**(50,394)**	**320,067**	**149,860**	**175,827**
Capital expenditures	(143,188)	(112,195)	(128,000)	(128,000)	(128,000)
Change in investments	(35,064)	(49,695)	(69,371)	(68,385)	(68,383)
Other investing cash flows	21,714	16,136	13,794	20,000	20,000
Cash flow from investing	**(156,538)**	**(145,754)**	**(183,577)**	**(176,385)**	**(176,383)**
Equities issued/Others	(335)	0	0	0	0
Debt raised/repaid	58,237	221,733	(85,000)	50,000	35,000
Interest expenses	0	0	0	0	0
Dividends paid	(23,242)	0	(41,338)	(25,566)	(28,555)
Other financing cash flows	0	0	0	0	0
Cash flow from financing	**34,660**	**221,733**	**(126,338)**	**24,434**	**6,445**
Chg in cash & cash eq.	**12,962**	**25,584**	**10,152**	**(2,091)**	**5,889**
Closing cash & cash eq.	**18,712**	**28,164**	**16,876**	**14,785**	**20,674**

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24E	FY25E	FY26E
Reported EPS	51.4	(49.2)	95.7	60.8	70.6
Adjusted EPS	51.4	(49.2)	95.7	60.8	70.6
Dividend per share	14.0	0.0	24.9	15.4	17.2
Book value per share	291.8	227.4	294.0	336.8	387.2

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24E	FY25E	FY26E
EV/Sales	0.3	0.2	0.3	0.3	0.3
EV/EBITDA	8.6	(12.8)	5.1	7.1	6.2
Adjusted P/E	7.3	(7.6)	3.9	6.2	5.3
P/BV	1.3	1.7	1.3	1.1	1.0

DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24E	FY25E	FY26E
Tax burden (Net profit/PBT)	94.9	56.0	89.8	92.7	96.0
Interest burden (PBT/EBIT)	123.1	106.0	97.0	95.8	94.9
EBIT margin (EBIT/Revenue)	1.8	(2.7)	3.8	2.4	2.6
Asset turnover (Rev./Avg TA)	242.3	279.0	244.6	229.8	221.0
Leverage (Avg TA/Avg Equity)	3.6	4.3	4.5	4.0	3.7
Adjusted ROAE	18.4	(19.0)	36.7	19.3	19.5

Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24E	FY25E	FY26E
YoY growth (%)					
Revenue	50.0	25.9	(7.4)	0.5	2.7
EBITDA	(36.0)	(170.4)	(388.9)	(24.3)	12.7
Adjusted EPS	(30.0)	(195.7)	(294.6)	(36.5)	16.0
Profitability & Return ratios (%)					
EBITDA margin	2.9	(1.6)	5.1	3.8	4.2
EBIT margin	1.8	(2.7)	3.8	2.4	2.6
Adjusted profit margin	2.1	(1.6)	3.3	2.1	2.4
Adjusted ROAE	18.4	(19.0)	36.7	19.3	19.5
ROCE	5.6	(12.2)	11.3	6.6	6.8
Working capital days (days)					
Receivables	7	5	6	6	6
Inventory	170	95	88	82	80
Payables	24	20	23	23	23
Ratios (x)					
Gross asset turnover	4.8	5.1	4.0	3.4	3.1
Current ratio	1.1	1.0	0.9	0.9	0.9
Net interest coverage ratio	6.3	0.0	6.3	4.0	4.3
Adjusted debt/equity	1.0	2.0	1.3	1.2	1.1

Source: Company, BOBCAPS Research | Note: TA = Total Assets

Financials – IOCL

Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Total revenue	**5,893,212**	**8,417,559**	**8,137,410**	**7,960,628**	**8,131,477**
EBITDA	474,549	313,823	599,690	470,210	490,227
Depreciation	(123,476)	(131,811)	(141,095)	(159,457)	(179,461)
EBIT	351,073	182,013	458,595	310,753	310,766
Net interest inc./(exp.)	(54,233)	(75,414)	(76,370)	(71,658)	(71,256)
Other inc./(exp.)	33,690	35,156	35,212	34,521	32,790
Exceptional items	0	0	0	0	0
EBT	330,531	141,755	417,437	273,615	272,300
Income taxes	(85,620)	(33,334)	(106,877)	(69,504)	(69,169)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	6,112	(10,500)	1,905	8,340	9,355
Reported net profit	**251,022**	**97,921**	**312,465**	**212,451**	**212,486**
Adjustments	0	0	0	0	0
Adjusted net profit	**251,022**	**97,921**	**312,465**	**212,451**	**212,486**

Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Accounts payables	490,619	547,341	531,917	530,193	540,356
Other current liabilities	675,221	662,886	669,593	667,197	681,351
Provisions	113,352	115,527	115,527	115,527	115,527
Debt funds	1,322,247	1,491,719	1,353,619	1,328,029	1,338,998
Other liabilities	153,544	168,004	175,687	182,240	188,790
Equity capital	91,810	137,716	137,716	137,716	137,716
Reserves & surplus	1,243,541	1,259,487	1,439,772	1,562,861	1,686,412
Shareholders' fund	1,335,352	1,397,202	1,577,487	1,700,576	1,824,127
Total liab. and equities	**4,106,249**	**4,417,621**	**4,466,866**	**4,569,459**	**4,737,490**
Cash and cash eq.	98,333	125,332	138,494	132,640	174,033
Accounts receivables	187,004	162,712	133,021	130,446	133,160
Inventories	1,117,365	1,211,076	1,123,403	1,119,858	1,141,684
Other current assets	180,322	189,152	202,823	199,347	203,407
Investments	443,388	417,539	417,539	417,539	417,539
Net fixed assets	1,605,133	1,800,465	1,974,664	2,177,131	2,359,594
CWIP	474,693	511,335	476,911	392,487	308,063
Intangible assets	10	10	10	10	10
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
Total assets	**4,106,249**	**4,417,621**	**4,466,866**	**4,569,459**	**4,737,490**

Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Cash flow from operations	**186,329**	**177,351**	**521,006**	**349,416**	**361,423**
Capital expenditures	(258,677)	(350,222)	(280,870)	(277,500)	(277,500)
Change in investments	(76,351)	1,615	0	0	0
Other investing cash flows	33,690	35,156	35,212	34,521	32,790
Cash flow from investing	**(301,339)**	**(313,451)**	**(245,658)**	**(242,979)**	**(244,710)**
Equities issued/Others	0	45,905	0	0	0
Debt raised/repaid	147,241	169,472	(138,100)	(25,590)	10,969
Interest expenses	0	0	0	0	0
Dividends paid	(96,400)	(33,054)	(132,180)	(89,362)	(88,935)
Other financing cash flows	736	709	930	559	559
Cash flow from financing	**51,578**	**183,033**	**(269,351)**	**(114,393)**	**(77,407)**
Chg in cash & cash eq.	**(63,432)**	**46,933**	**5,997**	**(7,956)**	**39,307**
Closing cash & cash eq.	**(38,685)**	**65,134**	**26,964**	**26,172**	**67,581**

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24E	FY25E	FY26E
Reported EPS	27.3	7.1	22.7	15.4	15.4
Adjusted EPS	27.3	10.7	34.0	23.1	23.1
Dividend per share	10.5	3.6	14.4	9.7	9.7
Book value per share	145.4	152.2	171.8	185.2	198.7

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24E	FY25E	FY26E
EV/Sales	0.4	0.3	0.3	0.3	0.3
EV/EBITDA	4.8	7.4	4.1	5.2	4.8
Adjusted P/E	4.5	11.6	3.6	5.4	5.4
P/BV	0.9	0.8	0.7	0.7	0.6

DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24E	FY25E	FY26E
Tax burden (Net profit/PBT)	75.9	69.1	74.9	77.6	78.0
Interest burden (PBT/EBIT)	94.1	77.9	91.0	88.0	87.6
EBIT margin (EBIT/Revenue)	6.0	2.2	5.6	3.9	3.8
Asset turnover (Rev./Avg TA)	154.0	197.5	183.2	176.2	174.7
Leverage (Avg TA/Avg Equity)	3.1	3.1	3.0	2.8	2.6
Adjusted ROAE	20.5	7.2	21.0	13.0	12.1

Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24E	FY25E	FY26E
YoY growth (%)					
Revenue	61.9	42.8	(3.3)	(2.2)	2.1
EBITDA	13.8	(33.9)	91.1	(21.6)	4.3
Adjusted EPS	16.0	(61.0)	219.1	(32.0)	0.0
Profitability & Return ratios (%)					
EBITDA margin	8.1	3.7	7.4	5.9	6.0
EBIT margin	6.0	2.2	5.6	3.9	3.8
Adjusted profit margin	4.3	1.2	3.8	2.7	2.6
Adjusted ROAE	20.5	7.2	21.0	13.0	12.1
ROCE	10.5	5.0	11.6	7.7	7.4
Working capital days (days)					
Receivables	10	8	7	6	6
Inventory	73	57	61	59	58
Payables	29	23	26	26	26
Ratios (x)					
Gross asset turnover	2.8	3.6	3.0	2.6	2.4
Current ratio	0.8	0.8	0.8	0.8	0.9
Net interest coverage ratio	6.5	2.4	6.0	4.3	4.4
Adjusted debt/equity	0.9	1.0	0.8	0.7	0.6

Source: Company, BOBCAPS Research | Note: TA = Total Assets

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