

OIL & GAS

07 March 2022

OMCs: Constructive view with a caveat

- OMCs could face near-term pressure on marketing margins from the sharp rise in crude price
- We retain our constructive view on OMCs on the premise that crude price and, in turn, marketing margins will normalise over FY23
- We now rate all OMCs as BUY as we upgrade BPCL after the recent correction; prefer HPCL for its earnings growth driven by project delivery

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OMCs have seen a pullback: Stock prices of BPCL, HPCL and IOCL have corrected by 15-19% since mid-Nov'21 after a pause on retail price revisions and, more recently, the sharp rise in crude prices. The correction has been relatively modest, indicating that the market is considering both events as temporary.

Stability of marketing margin in question: At current prices, marketing loss on petrol and diesel has shot up to Rs 23-27/l. While we expect price revisions to commence post March, these are likely to be staggered, leading to pressure on marketing margins for 1-2 quarters. The impact is material as Re 1/l of marketing loss on petrol and diesel for a quarter could lower FY23E EBITDA by 5-7% for OMCs.

Crude price could revert to US\$ 80-90/bbl over FY23: Despite near-term uncertainty, we believe sanctions on Russia's energy flows are unlikely given the global dependence on its supplies and the fact that OPEC's entire spare capacity could be erased just to replace 4.6mbpd of Russian crude flow. If no sanctions are imposed, we believe trade flows could rebalance, allowing supply to continue. With a ramp-up of both OPEC and non-OPEC production, the market could return to surplus in CY22. Any deal with Iran could help ease supply tightness earlier.

Retain constructive views on OMCs: We expect the eventual return of crude price to US\$ 75/bbl over CY23 and hence retain our constructive stance on OMCs. Factoring in faster recovery in refining margins and a one-quarter impact on marketing margins in FY23, we raise our FY23/FY24 earnings forecasts by 2%/7% across OMCs. We also roll valuations forward to FY24.

Prefer HPCL amongst OMCs: We prefer HPCL as the company is positioned to deliver profit growth over FY23-FY24, earlier than other OMCs, from the completion of capex investments worth Rs 320bn on its books and Rs 212bn by HMEL. For BPCL, though we upgrade the stock from HOLD to BUY, we lower our TP to Rs 450 (vs. Rs 460) as we no longer bake in potential acquisition value. While the government is aiming to close the privatisation transaction in FY23, the task looks increasingly difficult with two bidders unable to tie up with strategic partners.

Recommendation snapshot

Ticker	Price	Target	Rating
BPCL IN	348	450	BUY
HPCL IN	285	410	BUY
IOCL IN	113	150	BUY

Price & Target in Rupees | Price as of 4 Mar 2022



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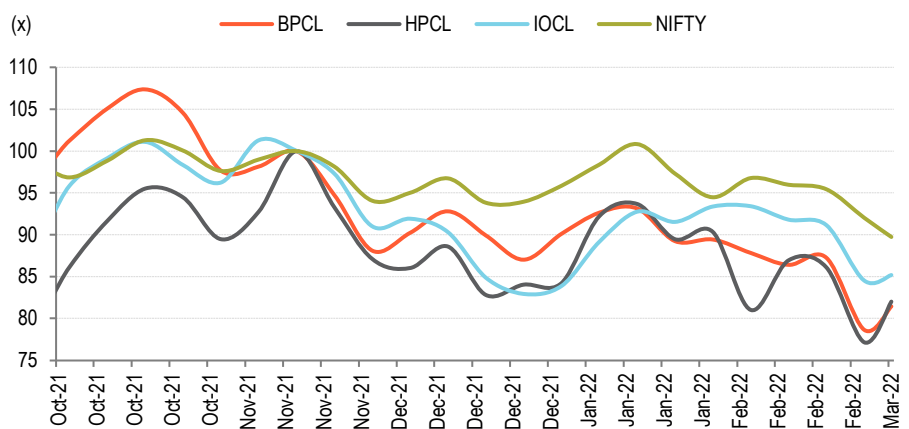
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OMC – Maintain constructive view assuming return to normalcy in FY23

OMCs have seen a pullback

Since mid-Nov'21, BPCL, HPCL and IOCL have corrected by 19%, 18% and 15% respectively owing to a double blow from the pause on retail fuel price hikes and the subsequent sharp rise in crude price driven by Russia's invasion into Ukraine. However, the share price correction has been relatively modest which implies that the market is currently perceiving both events as temporary in nature.

Fig 1 – OMCs have corrected after pause in retail fuel price revisions and spike in crude price (rebased to 100)



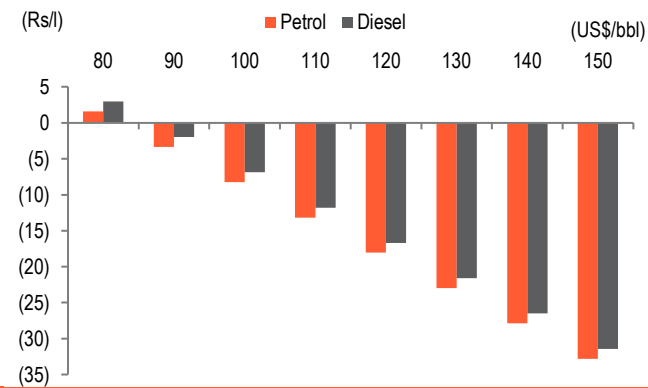
Source: Bloomberg, BOBCAPS Research

Stability of marketing margin in question

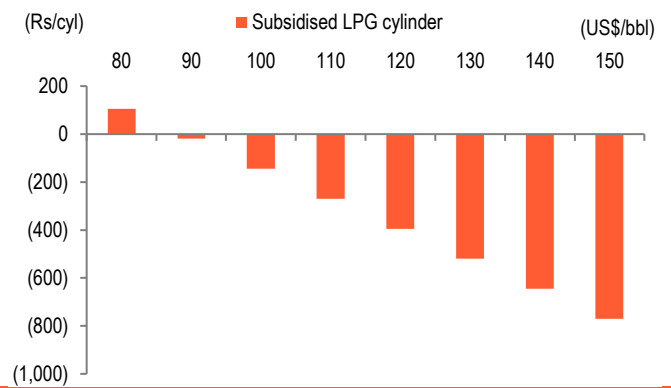
Prior to the war on Ukraine, our constructive view on OMCs was based on expectations of a gradual improvement in refining margin, sustained marketing margin and further earnings growth from refinery and petrochemical project completions.

The crisis has put a question mark on our assumption of sustained marketing margins as it has fueled a surge in crude price to US\$ 130/bbl levels from US\$ 85/bbl on average in Jan'22. This has caused significant marketing losses which we estimate at Rs 23/l on petrol, Rs 27/l on diesel and Rs 145/cylinder on domestic subsidised LPG at current prices (crude at US\$ 125/bbl, gasoline crack at US\$ 19/bbl, diesel crack at US\$ 29/bbl and LPG crack at US\$ -25/bbl). Marketing margin has a high sensitivity to crude and losses could widen above Rs 30/l on petrol and diesel if crude price rises to US\$ 150/bbl.

Current global oil prices and product spreads are at a substantial premium that reflects the market uncertainty and disruptions to existing crude and product flows, particularly between Europe and Russia. Uncertainty also abounds about the length of the war and the subsequent period of disruptions, final sanctions and potential retaliation by Russia such as energy flow blockage.

Fig 2 – Sensitivity of marketing margin on petrol and diesel to crude price


Source: BOBCAPS Research

Fig 3 – Sensitivity of marketing margin on petrol and diesel to crude price


Source: BOBCAPS Research

Sanctions to dictate crude price

In our view, the key determinant of eventual crude price levels will be whether there are sanctions on energy flows out of Russia via an export ban. This implies two broad scenarios –

- Scenario 1 – No sanctions on Russian energy flow:** If the Western world does not impose sanctions on Russia, crude trade flows will rebalance even if some customers self-sanction Russian oil supply. We believe that only 0.7mbpd of crude export through the Dhruzba pipeline is at risk of discontinuation as the same cannot be redirected due to capacity restrictions at Russian ports. Under this scenario, the crude demand-supply balance should return to surplus by end-FY23. Any nuclear deal with Iran would help ease the balance faster given the additional availability of 1.3mbpd of Iranian crude supply.
- Scenario 2 – Sanctions on Russian energy flow:** If the Western world imposes sanctions on Russian crude supply, then a significant proportion of supply (4.6mbpd) will not be available. This would immediately wipe out almost all available surplus capacity with OPEC. Customers may also have to resort to strategic and commercial stocks. For the market to rebalance, a significant amount of demand destruction will be necessary. Under this scenario, oil prices could remain high for longer. Even a nuclear deal with Iran may not help resolve the supply pressure.

Price normalisation in FY23 a more likely scenario

At this stage, we consider Scenario 1, i.e. no sanctions on Russian energy flow, as the more likely outcome considering that the West aims to minimise the impact on itself while maximising the long-term impact on Russia. Hence, we maintain our constructive view on OMCs on the premise that oil prices would eventually return to a more reasonable level of US\$ 80-90/bbl during FY23, allowing marketing margins to average at a sustainable level through the cycle.

Key triggers for an oil price reversal that underpins our base case are –

- An eventual political solution to the Russia-Ukraine war, lowering the risk premium on crude price
- A potential nuclear deal between the US and Iran that could improve crude supply
- Crude market turns to surplus during CY22 with the easing of OPEC cuts and ramp-up of non-OPEC production, assuming no major disruption to Russian supply

Marketing margins may remain stressed for 1-2 quarters

It is important to note that OMCs' marketing margin breakeven has improved substantially to US\$ 80/bbl following retail acceptance of current price levels of Rs 95/l for gasoline and Rs 87/l for diesel, alongside the recent partial rollback of excise duty in Nov'21.

As elections across six Indian states draw to an end in the second week of Mar'22, retail fuel price changes are likely to resume. With oil prices closer to US\$ 130/bbl, OMCs have ample headroom to adjust retail fuel price but are likely to do so in a staggered manner. If oil price stays above US\$ 125/bbl, there is a possibility that full pass-through may not occur.

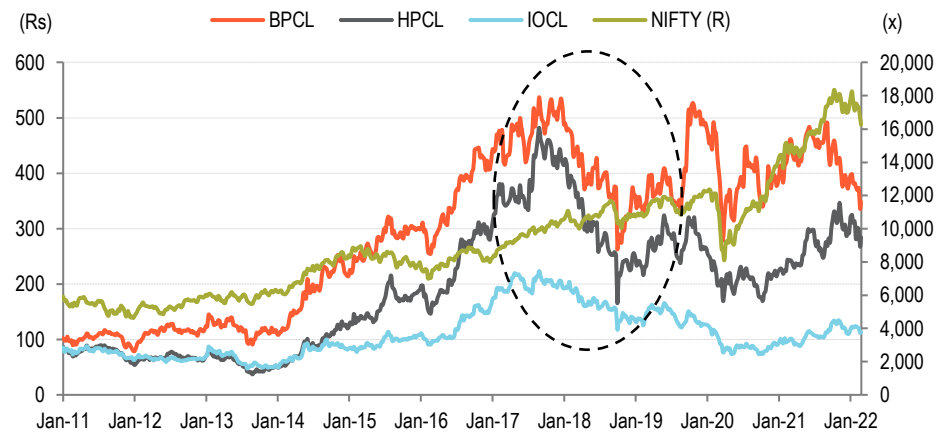
While the Indian government could bail out OMCs by rolling back excise duty to pre-pandemic levels, this could mean an additional fiscal cost of Rs 0.9tn for the government (per ICRA) and hence will likely be an instrument of last resort. Thus, OMCs' marketing margin may remain under pressure for one or two quarters even in the absence of any sanctions on energy supply from Russia.

Recovery from last oil price shock led by resolution of under-recoveries

OMC had recovered from the last oil price shock seen in FY18-FY19 upon resolution of under-recoveries as outlined below:

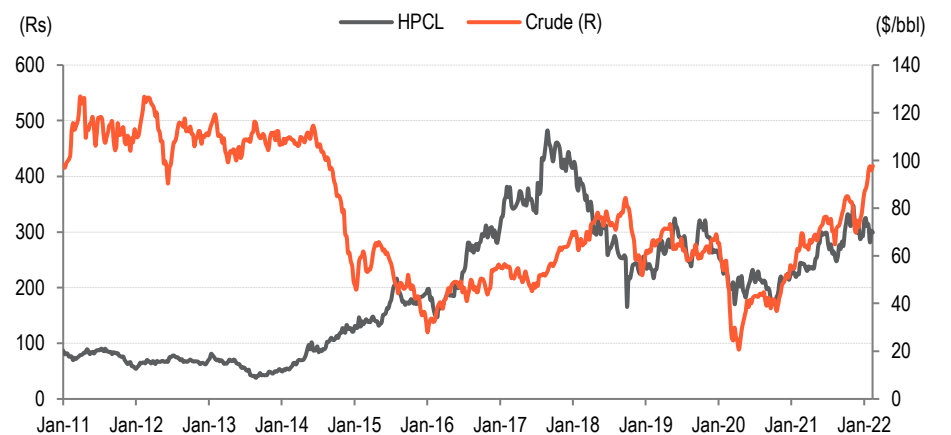
- OMC stocks had corrected between Sep'17 and Dec'18 as crude price shot up from US\$ 45/bbl in Jun'17 to US\$ 81/bbl by Oct'18. During FY18-FY19, OMCs saw a rise in under-recoveries and delays in subsidy payments.
- Thereafter, OMC stocks recovered over Oct'18 to Jun'19. This was in response to a sharp correction in oil price to US\$ 52/bbl by Dec'18 and stabilisation at ~US\$ 65/bbl by Jun'19, aiding resolution of under-recoveries.

Fig 4 – OMC stock movement during last oil price shock in H2FY19



Source: Bloomberg, BOBCAPS Research

Fig 5 – OMC stock price vs. crude using HPCL as a proxy for OMCs



Source: Bloomberg, BOBCAPS Research

Raise forecasts on faster recovery in refining environment

We raise our FY22/FY23/FY24 EBITDA forecasts for OMCs by 9.5%/2.2%/6.5% to factor in a stronger refining performance than our assumptions, actual inventory gains for FY22 and weaker marketing margins for FY23 due to the surge in crude oil prices.

For OMCs collectively, we currently forecast a 12% YoY decrease in FY22 EBITDA (vs. the consensus estimate of -13%). Marketing margins are likely to be under pressure in Mar'22, offsetting a part of the benefit from stronger refining margins, and hence we expect a muted performance in Q4FY22. There could be further upside from inventory gains should crude remain above US\$ 90/bbl on heightened geopolitical tensions. At this stage, we are factoring in inventory gains of only US\$ 12.5/bbl.

For FY23, we model for a 14% YoY decline in EBITDA (vs. +5% for consensus) driven by assumptions of weaker refining margins. For FY24, we build in 25% YoY growth (vs. +7% for consensus) based on recovery in marketing margin, steady increase in refining margin, higher marketing volumes and completion of investment projects.

Fig 6 – BOBCAPS estimates vs. Consensus

Company	Actual	New			Consensus			Var (%)		
	FY21	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
EBITDA (Rs bn)										
BPCL	213	179	161	204	169	184	194	5.6	(12.6)	5.1
HPCL	160	104	110	144	120	138	148	(13.0)	(20.3)	(3.1)
IOCL	417	416	330	401	398	396	429	4.4	(16.7)	(6.5)
OMCs	790	699	601	748	687	718	771	1.7	(16.3)	(2.9)
EBITDA growth (%)										
BPCL	-	(16.0)	(9.9)	26.5	(20.5)	8.9	5.2	-	-	-
HPCL	-	(34.8)	5.4	30.8	(25.0)	15.1	7.5	-	-	-
IOCL	-	(0.4)	(20.7)	21.6	(4.5)	(0.6)	8.3	-	-	-
OMCs	-	(11.6)	(14.0)	24.6	(13.0)	4.5	7.4	-	-	-
Adj PAT (Rs bn)										
BPCL	121	105	84	114	99	105	110	6.5	(19.5)	3.7
HPCL	104	73	70	99	69	78	82	5.1	(10.6)	20.5
IOCL	216	237	154	192	213	196	206	11.1	(21.5)	(6.9)
OMCs	441	415	308	404	381	379	397	8.8	(18.7)	1.7

Source: Bloomberg, BOBCAPS Research

At this stage, the key risk to our view is lower marketing margins than our assumptions, particularly for FY23 given uncertainty over the Russia-Ukraine situation. Our sensitivity analysis shows that a Rs 1/l marketing loss on petrol and diesel for a quarter could lower FY23E EBITDA by 5-7% for OMCs. Similarly, a Rs 10/LPG cylinder loss for a quarter impacts FY23E EBITDA by 0.5-1.0%.

Fig 7 – Sensitivity of FY23E EBITDA to marketing loss

(%)	BPCL	HPCL	IOCL
Marketing loss of Rs1/l on diesel and gasoline for one quarter	4.6	5.6	7.4
Marketing loss of Rs10/cyl on LPG for one quarter	0.6	0.7	1.1

Source: BOBCAPS Research

Prefer HPCL amongst OMCs

We believe HPCL will outperform its OMC peers on EBITDA and PAT growth over FY22-FY24 as it delivers on expansion and upgrade projects at its Vizag refinery and the petrochemical expansion project at HMEL Bhatinda.

We upgrade BPCL from HOLD to BUY after a sharp 19% price correction since mid-November. While the government is aiming to close the company's privatisation transaction in FY23, the task looks increasingly difficult as bidders have been unable to tie up with strategic partners. We no longer base our target price on what we think the acquirer will be willing to pay and hence strip away the control premium (20% previously) and also assume 20% discount on its investments (0% previously), in line with our valuation approach for other OMCs.

Fig 8 – 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	FY22E	FY23E	FY22E	FY23E	FY21A	FY22E	FY22E	FY23E
BPCL	348	BUY	450	29.2	HOLD	460	179	161	105	84	1.4	1.3	7.1	8.8
HPCL	285	BUY	410	44.0	BUY	345	104	110	73	70	1.1	1.0	5.7	5.9
IOCL	113	BUY	150	32.5	BUY	135	416	330	237	154	0.9	0.8	4.4	6.8

Source: Bloomberg, BOBCAPS Research

Key earnings drivers

Crude and refining margin

Fig 9 – Crude and refining margin forecasts

	Unit	New			Old			Change (%)		
		FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Exchange rate	USDINR	74.5	76.5	78.0	75.0	76.5	78.0	(0.7)	0.0	0.0
Brent	US\$/bbl	80.7	82.5	75.0	67.5	65.0	65.0	19.6	26.9	15.4
Singapore Dubai Refining Margin	US\$/bbl	3.5	4.2	4.5	1.8	3.3	3.8	102.4	30.5	19.8
Sweet-Sour spread	US\$/bbl	1.7	1.5	1.5	0.6	1.0	1.5	187.9	50.0	0.0

Source: BOBCAPS Research

Crude price

We raise our FY22/FY23 Brent forecasts by 20%/27%, reflecting a tighter demand-supply balance than our previous assumptions. While crude price has recently surged toward US\$ 130/bbl owing to the increased risk of disruptions to Russian crude and product supply, we assume that it will ease to US\$ 75/bbl as the market moves into surplus through FY23. For our base case, we assume that a political solution will eventually avert long-term disruption of energy supply.

- Initial price surge over Dec-Feb supported by demand pull.** The surge in crude price over December-February was supported by the milder impact of Omicron than earlier anticipated, an increased demand for diesel (due to a switch away from natural gas), higher demand for lighter crude oil by European refineries (due to higher natural gas prices), strong stock draws in December, unscheduled supply outages and geopolitical tensions.
- Russia-Ukraine war poses risk of material supply disruption.** Russian crude and product exports together account for 11% of global liquid supply (BP Statistical Review). In Dec'21, Russia exported 5mbpd of crude & condensates and 2.85mbpd of oil products. While any disruption to product exports could be made up by the rest of the world, it would be a big challenge to fully replace Russia's crude oil exports of 4.6mbpd as this could wipe out the entire available OPEC spare capacity at one go. Consumer countries may also have to draw upon strategic and commercial stocks.
- Our base case assumes eventual normalisation of Russian oil supply.** Considering the Western world's heavy dependence on Russian energy, we believe that every political effort will be made to avoid material, long-term disruptions to Russian supply. In designing the latest sanctions, the US, EU and their allies have exempted energy and its payment mechanisms from sanctions. US President Biden's statement exemplifies these efforts: "We have purposefully designed these sanctions to maximise the long-term impact on Russia and to minimise the impact on the United States and our Allies."

However, questions remain over the duration of war, the level of ultimate sanctions on Russia, retaliation by Russia and any potential leakages from sanctioned commodities. We believe crude price will reflect this uncertainty in the interim.

- **Sizeable rebalancing of trade flows likely even in the base case.** Europe has the highest dependence on Russian oil supply. In Nov'21, OECD Europe imported 4.5mbpd of oil from Russia, equivalent to ~34% of its total imports. (Source: IEA) We have started seeing signs of self-sanctioning by customers and this could require significant rebalancing of trade flows.

Out of 2.6mbpd of seaborne trade flow from Russia to Europe (including 1mbpd of Kazakh crude loaded from Russian ports), China could absorb half of the displaced barrels, India could pick up a third and the balance could be picked up by other Asian countries. Europe could redirect its own 0.6mbpd of exports to domestic markets and fill the gap by sourcing the balance from the Middle East. The Middle East could provide this from cargoes displaced in the Asian market. (Source: Braemer ACM Shipbroking)

While seaborne trade can be rerouted, the 0.7mbpd of on-land exports through the Druzhba pipeline runs the risk of coming to a halt and may have to be replaced by OPEC.

- **Outside Russia, supply likely to ramp up through CY22.** Several of the unscheduled outages are temporary issues and we expect supply to recover through CY22. OPEC-10 has shown the first sign of output improvement, delivering a 420kbpd MoM increase in February vs. its target of 254kbpd for the month, as per Reuters estimates. Overall, OPEC+ is still pumping significantly below the target as at end-Feb'22.

Outside OPEC, oil supply is likely to increase by 2mbpd in CY22, according to the latest IEA forecasts published in Oil Market Report Feb'22. While the US is likely to add 1.2mbpd of supply, Canada, Brazil and Guyana could add an additional 460kbpd between them.

- **Crude market expected to turn surplus in CY22 in base case.** At this juncture, both the IEA and OPEC Joint Technical Committee (JTC) expect the market to shift to a surplus in Q1CY22 itself. While the JTC has lowered its forecast for crude market surplus in its latest report (1 Mar 2021), it expects the surplus to sustain through CY22 with its quarterly forecasts at 1.0mbpd, 1.6mbpd, 1.1mbpd and 0.9mbpd respectively over Q1 to Q4. The forecast does not assume any disruption to Russian supply.

The JTC also forecasts gradual improvement in global oil stocks from 195mb below the CY15-CY19 average at end-Q1CY22 to 62mb below the five-year average at end-Q4CY22.

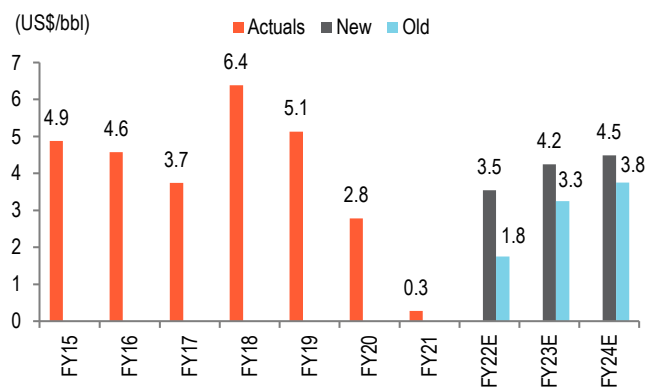
- **Iranian supply has the potential to ease physical market tightness.** A further 1.3 mbpd of Iranian crude supply could gradually be brought to market should sanctions be lifted in a relatively short period of 4-6 months.
- **We expect crude to revert to US\$ 80-90/bbl over FY23.** While we expect crude to ease from current high levels, we believe it will settle at US\$ 75/bbl vs. US\$ 65 previously given the likelihood of greater price volatility following the planned reduction in effective OPEC spare capacity from 5mbpd currently to below 2.5mbpd by end-CY22.

Refining margin

We raise our FY22/FY23 benchmark refining margin forecasts to US\$ 3.3/US\$ 4.2 (from US\$ 1.8/US\$ 3.3) given the faster-than-anticipated improvement in global supply-demand balance.

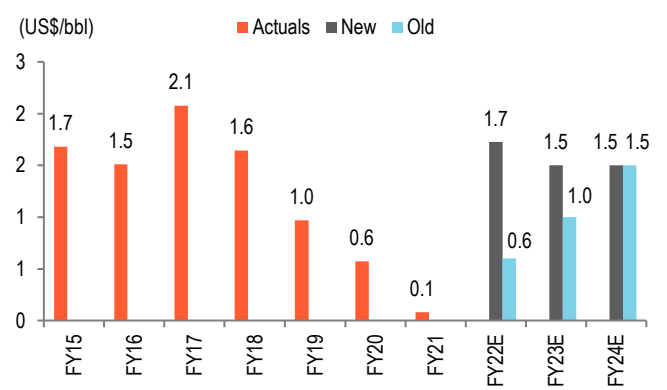
- Refining margins improved through H2CY21.** Global crude throughput recovered by 4.9mbpd in CY21 to 80.2mbpd, as per IEA estimates. Global refining capacity fell for the first time by 0.73mbpd as closures outweighed new additions. Over the past two years, 2.5-3mbpd of closures have been announced, with more than 0.75mbpd being in Europe, 1mbpd in the US and 0.9mbpd in Asia ex-China. Margins improved through Q4CY21 with healthy gasoline cracks and improved diesel cracks as some European refiners reduced the use of hydrocrackers while diesel demand peaked. This also helped lower product inventories.

Fig 10 – Refining margin forecast changes



Source: Bloomberg, BOBCAPS Research

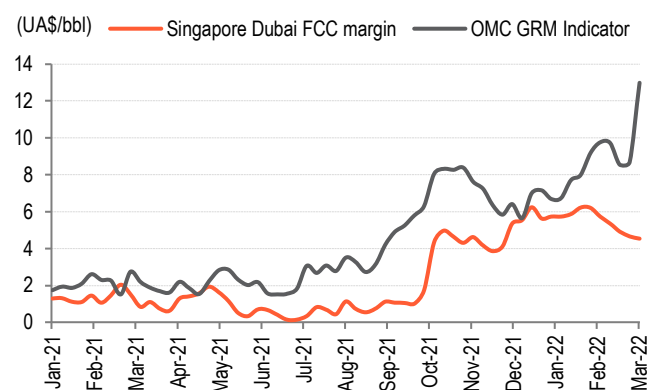
Fig 11 – Sweet-Sour spread forecast changes



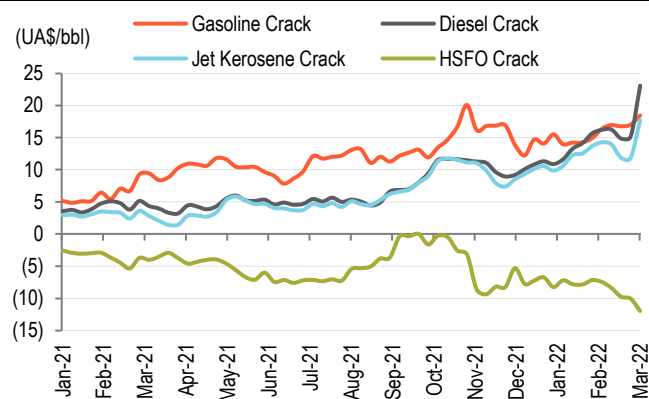
Source: Bloomberg, BOBCAPS Research

- We raise refining margin forecasts.** We have raised our benchmark margin forecast for FY23 to US\$ 4.2/bbl (from US\$ 3.3). While the benchmark margin is currently above US\$ 6/bbl, we expect it to average lower through the year due to gradual rebalancing of trade flow. At this juncture, IEA forecasts for CY22 are looking for net refining capacity addition of 1.2mbpd. Though refining closures in developed markets are accelerating, capacity addition is likely to outweigh closures in CY22 as some delayed projects ramp up. While IEA is looking for a throughput increase of 3.7mbpd in CY22, utilisation at refineries is still likely to be below 80%.

Refining supply-demand balance could further improve with a potential 250kbpd drop in exports from China as PetroChina’s irregular trade with 115 private refiners has been suspended. On maintenance-related supply disruptions, while US players indicate the possibility of higher shutdowns (due to deferrals seen in CY20/CY21), European players expect to see lower shutdowns (due to the advancing of turnarounds to CY20/CY21).

Fig 12 – GRM indicator improves further in Jan'22

Source: Bloomberg, BOBCAPS Research

Fig 13 – Product cracks improve on strength in diesel

Source: Bloomberg, BOBCAPS Research

- Assume limited long-term supply impact from Russia-Ukraine war.** Our base case forecast does not assume material, long-term disruptions to product exports out of Russia (~10% of world supply during CY20, per BP Statistical Review). In Dec'21, Russia exported 5mbpd of crude & condensates and 2.85mbpd of oil products. This includes gasoil (1.1mbpd), fuel oil (650kbpd), naphtha (500kbpd) and vacuum gasoil (VGO: 250kbpd). Gasoline, LPG, jet fuel and petroleum coke made up the remaining 350kbpd. (Source: IEA)

However, there is a likelihood of logistical disruptions to Russian exports in the near term which could keep the refining market balance tight even post the European winter. Countering this, there could be some demand destruction, particularly in Europe with higher natural gas and coal prices.

Fig 14 – Refining capacity additions scheduled for CY22

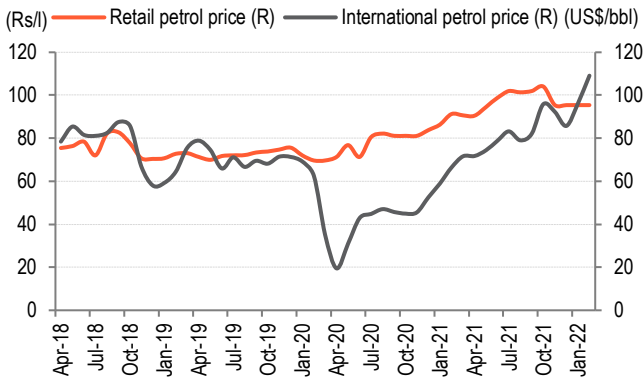
Country	Refinery	Capacity addition (kbpd)	Timeline
Saudi Arabia	Jazan	400	Ramping up but full ramp-up schedule unclear
Kuwait	Al-Zour	615	Test runs started in CY20, fully online around May'22
Kuwait	Mina al-Ahmadi and Mina Abdullah	na	Clean fuels project to increase overall capacity
Nigeria	Dangote	650	Looking for mid-CY22 start-up
China	Shenghong	320	Started end of Jan'22
China	Zhejiang	400	Started early Jan'22
India	Vizag	120	Commissioning in Q2CY22

Source: BOBCAPS Research

Marketing margin

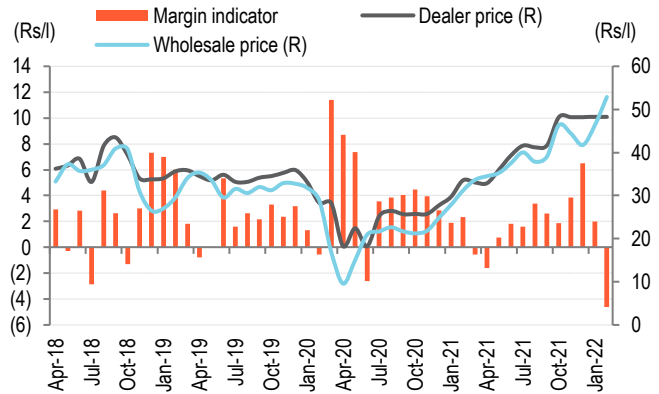
- **Healthy fuel marketing margins...** Marketing margins on both petrol and diesel have remained healthy in FY21 and FY22 YTD despite the move away from frequent fuel price changes. The partial rollback of excise duty on petrol and diesel in Nov'21 supported a reasonable marketing margin even when crude price was ranging at US\$ 70-85/bbl.
- **...but the trend has been disrupted.** OMCs have not raised prices since October and hence marketing margins reduced significantly in January as crude rose to US\$ 85-90/bbl. Margins turned negative in February with oil prices crossing US\$ 100/bbl.
- **LPG marketing margin also strained.** In LPG, while marketing margins remained healthy over the past three years, there was a sharp drop in Q3FY22 as the government did not raise retail prices in line with international rates. International LPG prices eased in December-January and margins accordingly improved from Q3 levels, but the sharp rise in crude price during February saw margins turn negative again.
- **Pressure on Q4 margin to be offset by inventory gains.** We expect OMCs' marketing margins to remain under pressure in Q4FY22 with the rise in crude prices. However, the impact of lower retail margins on petrol, diesel and LPG is likely to be offset by the absence of the one-off duty cut impact on inventories seen in Q3. Further, higher crude price could lead to inventory gains and mitigate the impact of lower retail marketing margin for Q4.
- **Rising oil price may dampen FY23 profitability.** We expect revision of retail fuel prices to recommence post March as the elections conclude. However, with the current high gap, price increases are likely to be staggered, keeping up the pressure on marketing margins. If oil price stays above US\$ 125/bbl, there is a possibility that full pass-through may not occur. Thus, marketing margins of OMCs may remain depressed for one or two quarters even in the absence of any sanctions on energy supply from Russia.
- **We expect marketing margins to revert to cyclical average in FY24.** This is based on our assumption of crude price retracing to US\$ 75/bbl by end-FY23.
- **Higher oil price for longer could invoke excise duty rollback.** The government undertook its first round of partial excise duty rollback in Nov'21 to keep fuel prices at manageable levels for consumers. However, current excise duty on petrol/diesel at Rs 27.9/Rs 21.8 per litre is still higher than pre-pandemic levels by Rs 8/Rs 6. If crude price remains high for a longer period, the option of excise duty rollback to pre-Covid levels could help ease the burden on OMCs. ICRA estimates that this option could have a fiscal cost of Rs 0.9tn for the government.

Fig 15 – Petrol retail price unchanged since Oct'21



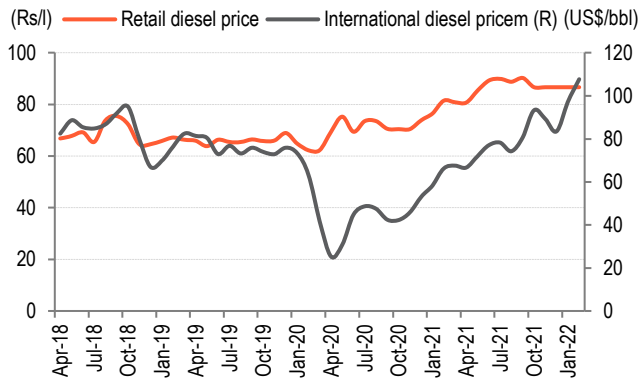
Source: Bloomberg, Petroleum Planning & Analysis Cell, BOBCAPS Research

Fig 16 – Petrol marketing margin reduced in Jan'22 with increase in international prices



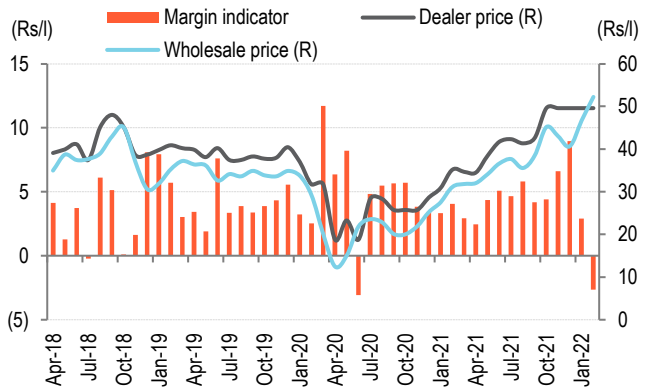
Source: Bloomberg, Bloomberg, Petroleum Planning & Analysis Cell, BOBCAPS Research

Fig 17 – Diesel price



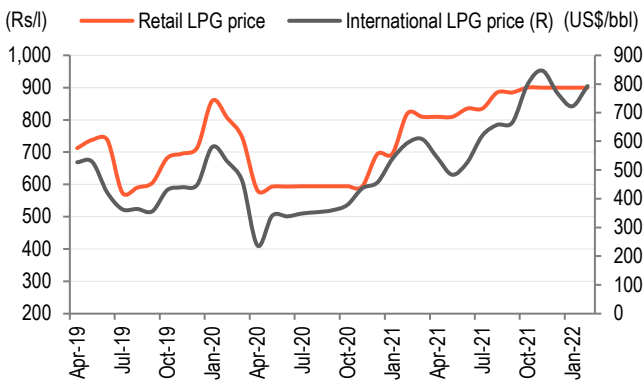
Source: Bloomberg, BOBCAPS Research

Fig 18 – Diesel marketing margin



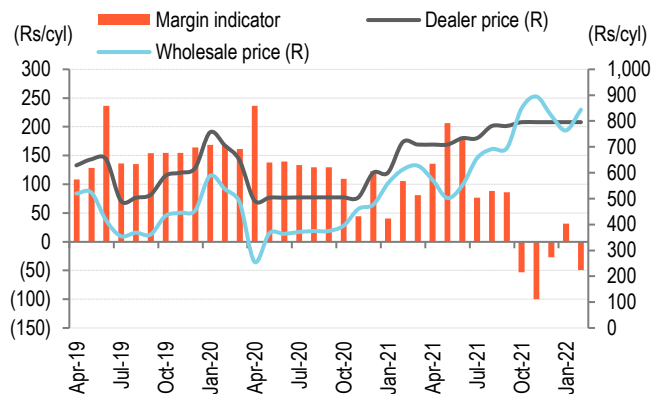
Source: Bloomberg, BOBCAPS Research

Fig 19 – LPG price



Source: Bloomberg, BOBCAPS Research

Fig 20 – LPG marketing margin



Source: Bloomberg, BOBCAPS Research

Surprise plunge in marketing profit led to Q3 miss

HPCL saw steepest earnings decline

OMCs failed to meet consensus earnings estimates for Q3FY22 owing to a steep one-off contraction in marketing profit. The decline stemmed from two factors:

- Non-recovery of excise duty on inventories held by their marketing arms after a duty cut on petrol/diesel by Rs 10/Rs 5 in Nov'21. We note that this is a one-time loss and will not recur in the normal course of business.
- Reduction in marketing margin on LPG by an estimated Rs 1,200/t in Q3 owing to the lag in pass-through of international prices to retail LPG price.

HPCL faced the sharpest decline in earnings during the quarter at 51% QoQ due to its inability to capture the increase in refining margin, as a part of its Mumbai refinery was in the stabilisation phase. Management has confirmed that it has now stabilised Mumbai refinery operations at the increased capacity of 9.5mtpa.

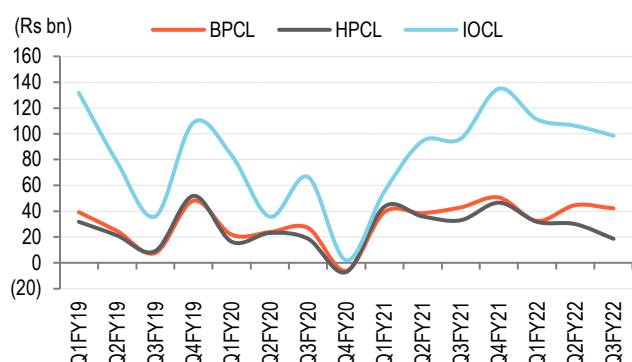
Fig 21 – Q3FY22: OMCs missed consensus estimates

(Rs bn)	Q3FY22	Q2FY22	QoQ (%)	Q3FY21	YoY (%)	Consensus	Variance (%)
EBITDA							
BPCL	42	45	(5.9)	43	(2.2)	51	(16.7)
HPCL	19	30	(37.9)	33	(43.3)	40	(53.7)
IOCL	99	106	(7.2)	96	2.5	124	(20.8)
Net income							
BPCL	25	27	(8.6)	32	(23.0)	31	(20.1)
HPCL	9	18	(50.8)	24	(63.1)	25	(65.2)
IOCL	59	64	(7.8)	49	19.2	73	(20.1)

Source: Bloomberg, Company, BOBCAPS Research

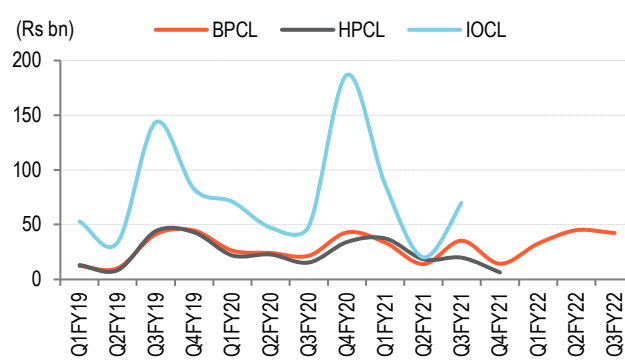
On the positive side, BPCL's underlying Q3FY22 EBITDA (ex-inventory loss) at Rs 56bn indicates that sector earnings have retraced to H2FY19 levels, with improvement in refining margin, marketing margin and volumes. BPCL is the only OMC that continues to disclose marketing EBITDA shorn of inventory gains, which yields important insights into underlying earnings. Its inventory gains on refining are of a relatively smaller magnitude than peers as it maintains only 7-10 days of stock for coastal refineries.

Fig 22 – EBITDA including inventory gains



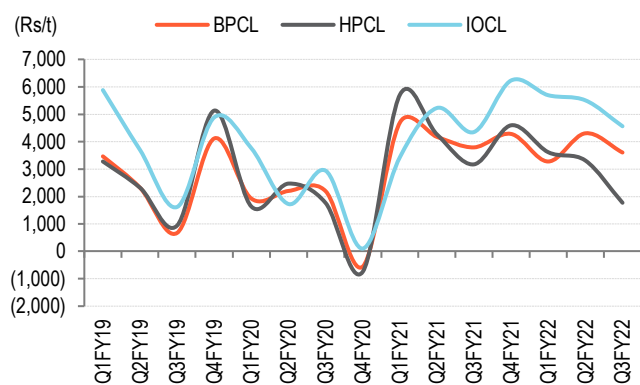
Source: Company, BOBCAPS Research

Fig 23 – EBITDA excluding inventory gains

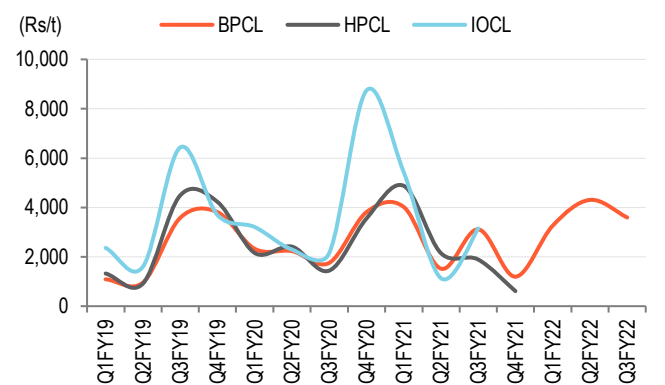


Source: Company, BOBCAPS Research

While IOCL's reported marketing EBITDA (+274% QoQ) showed much sharper improvement than that of BPCL (-65% QoQ) in Q3, the company no longer discloses inventory gains which makes it difficult to gauge the trend in underlying earnings. Typically, IOCL carries significantly higher levels of inventory for both refining and marketing. This is needed to operate its inland refineries, widespread marketing infrastructure and largest pipeline network among peers.

Fig 24 – Marketing EBITDA/t including inventory gains


Source: Company, BOBCAPS Research

Fig 25 – Marketing EBITDA/t excluding inventory gains


Source: Company, BOBCAPS Research

Sharp recovery in refining margin

Refining EBITDA showed sharp sequential improvement across OMCs in Q3FY22. With crude price staying flattish from 30 September to 31 December, we can attribute the increase to stronger refining earnings. This was driven by both margin recovery and restored volumes.

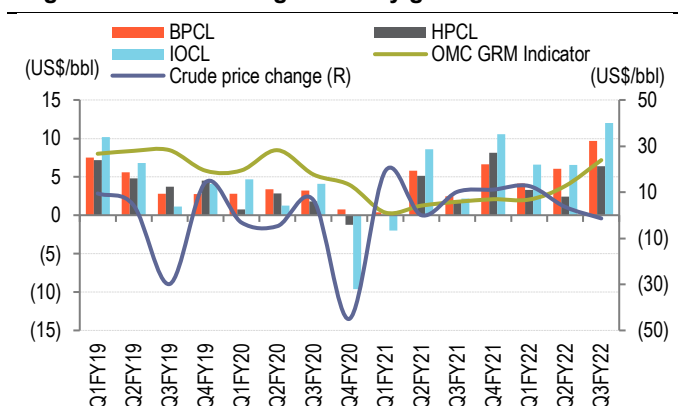
- Following a rebound in diesel cracks (due to a fuel shift away from natural gas) and jet fuel cracks (on increased air travel), our PSU GRM proxy indicator improved sharply to US\$ 7.2/bbl over Oct-Dec'21 from the lows of US\$ 0.3-2.1/bbl seen over Jul'20-Jun'21. (Our GRM proxy indicator arrives at an estimate of GRM using a typical product slate for OMCs.)
- Refining throughput also improved. BPCL's Q3 throughput was at ~8mt, just 5% short of its peak of 8.4mt in H2FY20. IOCL saw a recovery to 17.4mt, only marginally short of its H1FY19 peak.
- IOCL reported the highest GRM of US\$ 12/bbl with the largest sequential change, but more than half the growth (US\$ 3/bbl) was due to inventory gains.
- HPCL reported the lowest GRM at US\$ 6.4/bbl as its Mumbai refinery could not capitalise on the higher margin environment because a portion of capacity was under commissioning and stabilisation. The company also faced relatively higher cost of internal fuel and energy consumption during the stabilisation phase.

Fig 26 – Refining profit improves

Refining	Unit	Q3FY22	Q2FY22	QoQ (%)	Q3FY22	YoY (%)	9MFY22	9MFY21	YoY (%)
Refining EBITDA incl. inventory gains									
BPCL	Rs bn	31	14	128.2	0	26,841.7	51	4	1,196.8
HPCL	Rs bn	8	(1)	1,126.5	(2)	423.1	8	(4)	275.9
IOCL	Rs bn	76	20	274.4	(3)	2,429.1	121	2	5,236.1
Refining throughput									
BPCL	mt	8.0	7.2	11.0	7.2	9.8	22.0	18.0	21.9
HPCL	mt	4.2	2.5	67.6	4.0	6.0	9.3	12.0	(22.9)
IOCL	mt	17.4	15.3	13.9	17.9	(2.6)	49.4	44.8	10.3
GRM									
BPCL	US\$/bbl	9.7	6.0	60.4	2.5	292.3	6.8	2.9	133.8
HPCL	US\$/bbl	6.4	2.4	161.9	1.9	241.7	4.5	2.4	91.5
IOCL	US\$/bbl	12.0	6.6	83.7	2.2	449.3	8.5	3.0	187.8

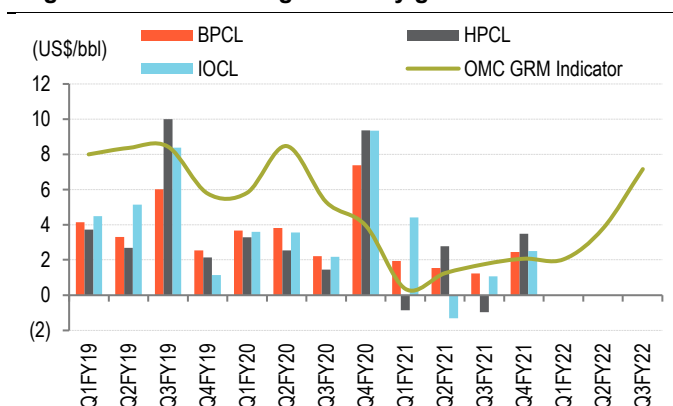
Source: Company, BOBCAPS Research

Fig 27 – GRM including inventory gains



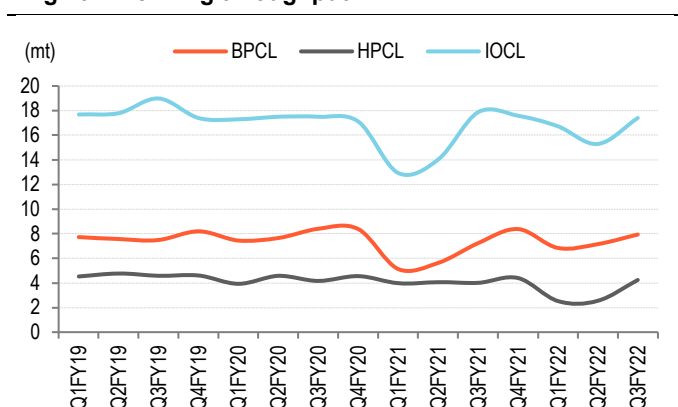
Source: Company, BOBCAPS Research

Fig 28 – GRM excluding inventory gains



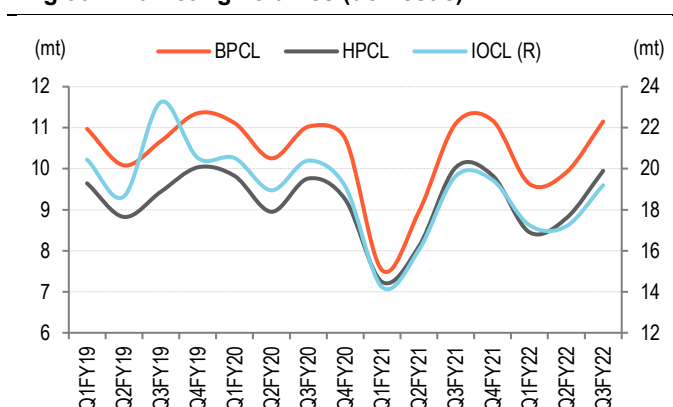
Source: Company, BOBCAPS Research

Fig 29 – Refining throughput



Source: Company, BOBCAPS Research

Fig 30 – Marketing volumes (domestic)



Source: Company, BOBCAPS Research

Surprising deterioration in marketing margin

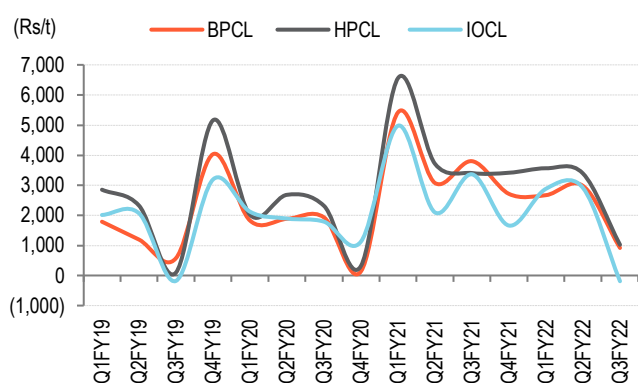
Apparent marketing EBITDA declined across OMCs in Q3 – a negative surprise for the market as it stood in sharp contrast to the improvement in marketing volumes as well as recovery in retail margins on petrol and diesel following the excise duty cut of early November. However, adjusting for inventory loss in the marketing business due to non-recovery of excise duty on inventories, BPCL's underlying marketing EBITDA/t works out to a healthy Rs 2,133/t (albeit down 23% QoQ). For HPCL as well, this works out to Rs 2,682/t after adjusting for the one-time loss due to excise duty reduction.

Fig 31 – Marketing earnings dropped on one-time loss from excise cut and lower LPG marketing margin

Marketing	Unit	Q3FY22	Q2FY22	QoQ (%)	Q3FY22	YoY (%)	9MFY22	9MFY21	YoY (%)
Marketing EBITDA incl. inventory gains									
BPCL	Rs bn	11	31	(65.4)	43	(75.2)	68	117	(41.5)
HPCL	Rs bn	16	35	(53.9)	44	(63.0)	87	139	(37.6)
IOCL	Rs bn	76	20	274.4	(3)	2429.1	121	2	5236.1
Market sales – Domestic									
BPCL	mt	11.2	9.9	12.5	11.1	0.5	30.7	27.6	11.3
HPCL	mt	10.0	8.8	13.2	10.0	(0.8)	27.2	25.4	7.2
IOCL	mt	19.2	17.2	11.6	19.6	(2.2)	53.6	49.9	7.5
Marketing EBITDA/t incl. inventory gains									
BPCL	Rs/t	916	2,985	(69.3)	3,804	(75.9)	2,132	4,042	(47.3)
HPCL	Rs/t	1,548	3,890	(60.2)	4,241	(63.5)	3,054	5,267	(42.0)
IOCL	Rs/t	(192)	2,917	(106.6)	3,358	(105.7)	1,793	3,419	(47.5)
Marketing EBITDA/t excl. inventory gains									
BPCL	Rs/t	2,133	2,766	(22.9)	3,567	(75.9)	2,251	3,204	(29.7)
HPCL	Rs/t	2,682	na	na	2,729	(1.7)	na	3,513	na

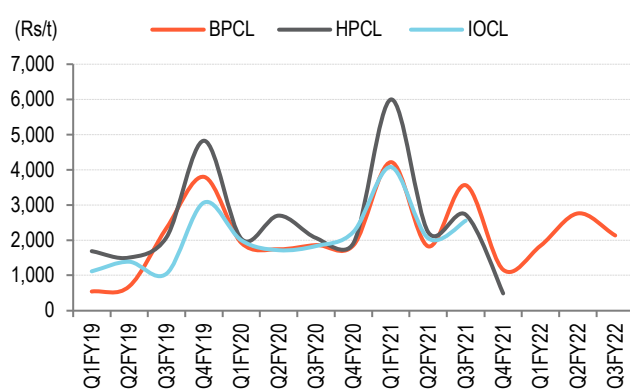
Source: Company, BOBCAPS Research

Fig 32 – Marketing EBITDA/t including inventory gain



Source: Company, BOBCAPS Research

Fig 33 – Marketing EBITDA/t excluding inventory gain

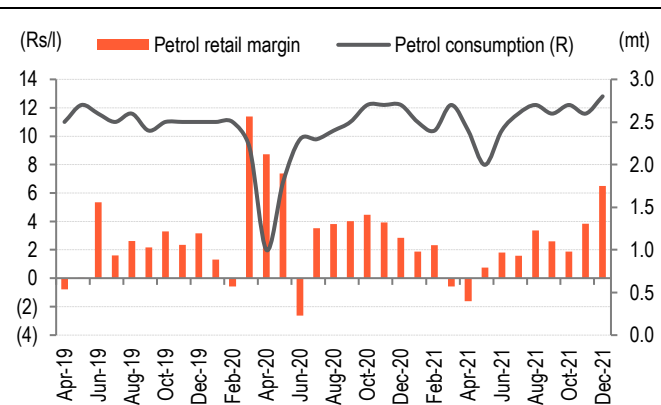


Source: Company, BOBCAPS Research

Healthy retail margins on petrol and diesel in Q3

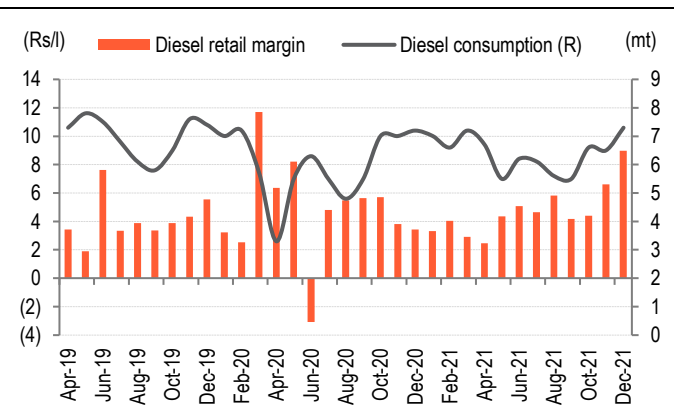
Looking beyond the one-time inventory loss stemming from the excise duty cut in Q3, it is important to recognise that OMCs were able to earn healthy retail marketing margins on both petrol and diesel even when crude prices remained in a range of US\$ 70-85/bbl over Oct-Dec'21.

Fig 34 – Petrol retail margin improved post duty cut



Source: Company, BOBCAPS Research

Fig 35 – Diesel retail margin improved as well



Source: Company, BOBCAPS Research

Sharp reduction in LPG marketing margin in Q3

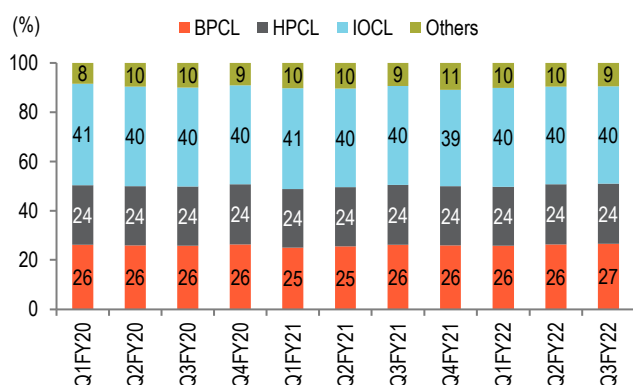
A persisting concern for the sector is the reduction in retail marketing margin on the sale of LPG, a controlled product where the retail price is lagging the increase in international price. IOCL has indicated that the phase is temporary and it would eventually adjust prices as international rates stabilise.

During Q3, we estimate that the differential between international and domestic prices before dealer margin and taxes has reduced by Rs 170 QoQ per 14.2kg cylinder. Assuming 90% of LPG sale is to domestic consumers and 80% of this goes to consumers who aren't under the PMUY scheme, we estimate a reduction in marketing margin of Rs 65bn or Rs 1,200/t for the industry as a whole because of controlled LPG prices.

Market share broadly unchanged

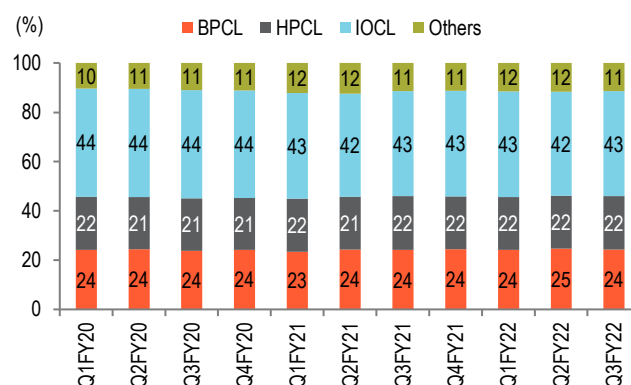
While BPCL is slowly gaining market share in petrol and diesel retail marketing, the volume share amongst OMCs remains largely the same.

Fig 36 – Market share: Petrol



Source: Company, BOBCAPS Research

Fig 37 – Market share: Diesel



Source: Company, BOBCAPS Research

Pipeline EBITDA improved but Petchem EBITDA declined

Pipeline EBITDA has improved sequentially in Q3 mainly on the back of a recovery in pipeline throughput. The revival in throughput has been sharper for HPCL than IOCL.

Fig 38 – Pipeline EBITDA improved sequentially on higher throughput

Pipeline	Unit	Q3FY22	Q2FY22	QoQ (%)	Q3FY22	YoY (%)	9MFY22	9MFY21	YoY (%)
EBITDA									
IOCL	Rs bn	16	15	13.7	17	(2.9)	47	41	12.8
Throughput									
HPCL	mt	5.5	4.8	15.8	5.5	(0.4)	14.6	13.8	6.0
IOCL	mt	21.8	19.5	11.6	21.8	0.0	61.2	54.2	13.0
EBITDA/t									
IOCL	Rs/t	756	742	1.9	779	(2.9)	763	764	(0.1)

Source: Company, BOBCAPS Research

IOCL's petrochemical EBITDA declined 46% sequentially due to a 42% QoQ contraction in segment EBITDA margin and a 7% QoQ reduction in volumes.

Fig 39 – Petrochemicals EBITDA depleted by lower spreads

Petrochemicals – IOCL	Unit	Q3FY22	Q2FY22	QoQ (%)	Q3FY22	YoY (%)	9MFY22	9MFY21	YoY (%)
EBITDA	Rs bn	10	18	(45.8)	20	(49.7)	48	39	22.9
Sale volume	mt	0.7	0.8	(7.4)	0.8	(9.9)	2.1	2.0	7.4
EBITDA/t	US\$/t	184	318	(42.2)	335	(45.1)	301	262	15.0

Source: Company, BOBCAPS Research

Environment-focused investments

Both BPCL and HPCL have announced that they are looking to to achieve net-zero scope 1 and scope 2 emissions by 2040. While Indian OMCs have started thinking about green investments along the lines of international majors, implementation is still at a nascent stage.

- **Green hydrogen:** BPCL is looking at a 20MW pilot electrolyser project at Bina refinery. HPCL is planning a 24ktpa green hydrogen capacity and has placed an order for a 370tpa pilot plant at Vizag refinery.
- **Biofuel:** BPCL plans to invest Rs 70bn in biofuels over the next five years. It is setting up a 100klpd ethanol unit at Bargarh in Odisha and is exploring another four 100klpd units in deficit states. On its part, HPCL is constructing a 100klpd 2G bio-refinery at Bhatinda with agri-waste as a feedstock and a 14tpd compressed biogas plant at Budaun in Uttar Pradesh. It also owns two ethanol plants in Bihar.
- **Renewable energy (RE):** BPCL aims to scale up its RE portfolio from 45MW to 1GW over five years and to 10GW by 2040. HPCL currently has an RE project portfolio totalling 150MW.

Investment thesis

BPCL – Upgrade to BUY, TP Rs 450 (vs. Rs 460)

While the government is aiming to close its privatisation transaction for BPCL in FY23, the task looks increasingly difficult. Two of the three bidders (Apollo Global Management and Think Tank, the Indian arm of I Squared Capital Advisors) have not been able to tie up a strategic partner, casting doubts over completion of the divestment transaction even in FY23.

While BPCL has historically traded at a premium to its OMC counterparts, reflecting better operations and management proactiveness, we believe the case for the same has weakened now. The privatisation process has slowed down the finalisation of new projects over the past couple of years, which would weigh on medium-term earnings growth. While BPCL has decided to resume evaluation of its capex programme, we will be closely monitoring for growth acceleration.

Key growth drivers

- **Mozambique LNG project:** Restart of implementation of the Mozambique LNG project in CY22 wherein BPCL has an investment commitment of Rs 160bn. This could contribute to earnings over FY26/FY27.
- **Acceleration of investment commitments:** The company aims to focus on its non-fuel business. It had previously indicated a target spend of Rs 1tn over the next five years. Broad contours include petrochemicals and improvement of refining efficiencies (Rs 300bn), gas proliferation (Rs 200bn), upstream (Rs 180bn), marketing infrastructure (Rs 180bn), renewables (Rs 50bn) and biofuels (Rs 70bn).
- **Final investment decision on the next wave of petrochemical projects:** BPCL is evaluating an ethylene cracker at Bina refinery with a potential spend of Rs 300bn and a polypropylene (PP) project at Kochi to consume 450kt of propylene. Based on learnings from implementation of the PDPP project, the company has cancelled a complex polyols project.

Forecast changes

Our FY22/FY23/FY24 EBITDA forecasts stand revised by +40%/-9%/+3% as we factor in faster recovery in refining margin in FY22-FY23 and a weaker marketing margin in FY23 following the surge in crude prices. Though BPCL has taken significantly longer to commission the PDPC complex at Kochi refinery, the complex has finally stabilised with all units reaching an operating rate of 70-80% in Q4FY22 (vs. 15-20% in Q3). If this performance is sustained, it could lead to an additional US\$ 1/bbl of improvement in gross refining margin at Kochi refinery. Our EPS forecasts are 20.3% below consensus for FY23 but 1.6% higher for FY24.

Fig 40 – BPCL: Revised estimates

(Rs bn)	Actuals	New			Consensus			Var (%)			Old			Change (%)		
	FY21	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	2,302	3,923	4,171	3,793	3,532	3,631	3,690	11.1	14.9	2.8	3,239	3,304	3,353	21.1	26.2	13.1
EBITDA	213	179	161	204	169	184	194	5.6	(12.6)	5.1	128	176	197	39.7	(8.6)	3.4
Adj Net profit	109	105	84	114	99	105	110	6.5	(19.5)	3.7	70	102	116	50.7	(17.4)	(2.1)
EPS	51.2	49.3	39.5	53.3	46.6	49.6	52.5	5.7	(20.3)	1.6	33	49	55	48.1	(18.8)	(3.8)

Source: Company, Bloomberg, BOBCAPS Research

Fig 41 – BPCL: Key assumptions

(Rs bn)	FY21	FY22E	FY23E	FY24E
Refining EBITDA	66	97	82	92
Marketing EBITDA	147	81	79	111
Consolidated EBITDA	213	179	161	204
YoY Growth (%)		(16.0)	(9.9)	26.5
Throughput (mt)	26.4	30	32	32
YoY Growth (%)	(17.3)	13.6	6.7	0.0
Domestic Marketing sales (mt)	38.7	41.5	43.9	46.5
YoY Growth (%)	(10.1)	7.0	5.8	5.9
Exchange rate	74.2	74.5	76.5	78.0
Crude price (US\$/bbl)	45.8	80.7	82.5	75.0
GRM (US\$/bbl)	4.1	7.3	5.8	6.0
Marketing EBITDA (Rs/t)	3,805	1,962	1,800	2,400

Source: Company, BOBCAPS Research

Valuation

We upgrade BPCL to BUY from HOLD with an upside of 29% to our target price. The stock is currently trading at a ~5.4x FY24E EV/EBITDA valuation multiple, below our target multiple of 6x EV/EBITDA for the sector.

Our TP decreases to Rs 450 (from Rs 460) as (a) we strip away control premium assumptions (20% previously) given that divestment in FY23 looks doubtful, (b) we now assume a 20% holding discount (0% previously) on the market value of its investments in IGL, OINL and PLNG, in line with our valuation approach for all OMCs, and (c) we roll our valuation forward to FY24 earnings. We value the refining and marketing business at an unchanged multiple of 6x FY24E EV/EBITDA, in line with our target multiple of 6x for OMC peers.

Fig 42 – BPCL: Valuation summary

Business segments	New		Comments	Old
	EV (Rs bn)	Value (Rs/sh)		Value (Rs/sh)
Refining				
Standalone	397	186	6x FY24E EBITDA	135
BORL refinery	157	74	6x FY24E EBITDA	65
Marketing	669	314	6x FY24E EBITDA	306
Total core business	1,223	574		505
Less: Net Debt	418	196		203
Equity value of core business	805	378		302
Control premium	0	0		60
Investments	88	41	Investments in PLNG, OINL, IGL @ CMP @ 20% discount to CMP	67
Total E&P	63	29	At carrying value estimated by BPCL as on FY21	32
Total equity value for BPCL	956	449		462
Target price (rounded to nearest Rs5)	-	450		460

Source: BOBCAPS Research

HPCL – Maintain BUY, TP Rs 410 (vs. Rs 345)

We maintain BUY on HPCL with an upside of 44% to our target price. At 4.6x FY24E EV/EBITDA, the stock is trading at a discount to BPCL, after adjusting for its investments. Amongst OMCs, we believe HPCL is positioned to deliver profit growth over FY23-FY24, ahead of other OMCs, from the completion of capex investments worth Rs 320bn on its books and Rs 212bn by HMEL.

The company underperformed peers in Q3/9MFY22 owing to delays in stabilisation of throughput increase at its Mumbai refinery. The upcoming refining and petrochemical projects may also take longer than initial guidance to stabilise. However, it is important to look beyond the initial stabilisation phase and focus on earnings growth potential after delivery on projects.

Key growth drivers

- **Vizag capacity expansion (by 6mtpa to 15mtpa):** HPCL targets mechanical completion by March-end and commissioning in Q1FY23.
- **HMEL Bhatinda petrochemical project:** HMEL targets mechanical completion by May'22 (earlier Mar'22).
- **Vizag bottom reside project:** HPCL targets mechanical completion by Dec'22 and commissioning over the next 3-6 months.
- **Rajasthan refinery commissioning:** Management has guided that the project is on track for Mar'24 and orders for all long-lead items has been placed.
- **Capex:** Management retained guidance at Rs 145bn each for FY22 and FY23 but guides for lower capex spend of Rs 110bn for FY24.

Forecast changes

We have revised our FY22/FY23/FY24 EBITDA forecasts by +12%/-7%/-1% as we factor in faster recovery in refining margin, a weaker marketing margin in FY23 following the surge in crude price and marginal delays in ramp-up of the Kochi expansion project.

Key earnings growth drivers would be full-year utilisation of the expanded capacity at Mumbai refinery (by 2mtpa to 9.5mtpa) and gradual ramp-up of Vizag refinery throughput by 6mt over FY23 and FY24. This together with an increase in refining margin is expected to aid 5% and 31% YoY growth in EBITDA for FY23 and FY24 respectively. We pencil in cumulative Vizag refinery margin gains of US\$ 2.5/bbl by FY25 upon completion of the residual upgrade project.

Our EBITDA forecasts are 20%/3% below consensus for FY23/FY24, reflecting our assumption of lower marketing margins for FY23 post the surge in crude prices and also our conservative estimates for profit upside at Vizag refinery from implementation of the expansion project.

Fig 43 – HPCL: Revised estimates

(Rs bn)	Actuals	New			Consensus			Var (%)			Old			Change (%)		
	FY21	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	2,322	3,408	3,868	3,737	3,262	3,242	3,287	4.5	19.3	13.7	3,029	3,194	3,327	12.5	21.1	12.3
EBITDA	160	104	110	144	120	138	148	(13.0)	(20.3)	(3.1)	93	118	145	12.0	(6.5)	(1.1)
Adj Net profit	104	73	70	99	69	78	82	5.1	(10.6)	20.5	61	83	106	18.8	(16.0)	(6.5)
EPS (Rs)	71.5	50.2	48.0	68.1	47.2	51.7	57.2	6.3	(7.3)	19.1	42.3	57.1	72.8	18.8	(16.0)	(6.5)

Source: Company, Bloomberg, BOBCAPS Research

Fig 44 – HPCL: Key assumptions

(Rs bn)	FY21	FY22E	FY23E	FY24E
Refining EBITDA	9	19	32	45
Marketing EBITDA	152	85	78	99
Consolidated EBITDA	160	104	110	144
YoY Growth (%)		(34.8)	5.4	30.8
Throughput (mt)	16.5	14.1	20.0	21.8
YoY Growth (%)	(4.1)	(14.5)	41.8	8.9
Domestic Marketing sales (mt)	35.2	37.0	39.1	41.4
YoY Growth (%)	(6.8)	5.1	5.7	5.8
Exchange rate	74.2	74.5	76.5	78.0
Crude price (US\$/bbl)	44.7	80.7	82.5	75.0
GRM (US\$/bbl)	3.9	5.0	5.3	6.1
Marketing EBITDA (Rs/t)	4,305	2,300	2,000	2,400

Source: Company, BOBCAPS Research

Valuation

Our TP increases to Rs 410 (from Rs 345) as we roll forward our valuation to FY24. We value the refining and marketing business at an unchanged multiple of 6x FY24E EV/EBITDA, in line with our target multiple of 6x for OMC peers. Completion of the Vizag refinery expansion and bottom residue upgrade projects over FY23-FY25 is

factored in by valuing incremental earnings beyond FY24 at the target multiple and discounting this back to Mar'23.

Fig 45 – HPCL: Valuation summary

Business segments	New		Comments	Old
	EV (Rs bn)	Value (Rs/sh)		Value (Rs/sh)
Refining standalone	273	188	6x FY24E EBITDA plus value of expansion discounted back to FY23	121
Marketing	596	410	6x FY24E EBITDA	397
Refining and marketing	869	598		518
Less: Net Debt	422	291		248
HMEL Bhatinda equity value	60	41	6x FY24E EBITDA plus value of expansion discounted back to FY23	14
Equity value of core business	506	349		284
Investment in MRPL and Oil India	15	10	20% discount to CMP	11
Other subsidiaries/ JVs/ Affiliates	75	51	At cost	51
Total equity value for HPCL	596	410		346
Target price excl FY21 dividend rounded to nearest Rs 5	-	410		345

Source: BOBCAPS Research

IOCL – Retain BUY, TP Rs 150 (vs. Rs 135)

We maintain BUY on IOCL with an upside of 32% to our target price. At 4.8x FY24E EV/EBITDA, the stock is trading at a significant discount to BPCL, after adjusting for its investments. 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 on completion timelines.

Key growth drivers

- **Refining capacity expansion:** IOCL has committed to expanding refining capacity by 25mmtpa to 106.7mmtpa along with associated value-added projects. The company is currently implementing 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 petrochemicals integration at Paradip, Panipat and Gujarat refineries to ~20%. It aims to increase capacity by 70% from the current 3.2mtpa and take the petrochemical integration index to 14-15% of overall throughput by 2030.
- **Investment plan:** IOCL is targeting an investment plan of Rs 11tn over the next five years.

Forecast changes

We revise our FY22/FY23/FY24 EBITDA forecasts by +41%/-9%/+1% as we factor in faster recovery in refining margin as well as a weaker marketing margin in FY23 following the crude price spike. We now forecast a 21% YoY decline in FY23 EBITDA assuming a weaker marketing margin and 22% YoY improvement in FY24 on the back

of a recovery in marketing margin, improvement in benchmark refining margin and increase in pipeline throughput.

While IOCL is pursuing a large investment plan of Rs 270bn-280bn annually, most of its expansion projects are targeted for completion in FY25 and beyond. We have not built the same into our estimates as we await visibility on timely implementation. Our EBITDA forecasts are 17% and 7% below consensus for FY23 and FY24 respectively.

Fig 46 – IOCL: Revised estimates

(Rs bn)	Actuals	New			Consensus			Var (%)			Old			Change (%)		
	FY21	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	3,639	6,191	6,516	6,216	5,556	5,924	6,150	11.4	10.0	1.1	5,196	5,291	5,464	19.1	23.1	13.8
EBITDA	417	416	330	401	398	396	429	4.4	(16.7)	(6.5)	294	360	395	41.4	(8.6)	1.4
Adj Net profit	216	237	154	192	213	196	206	11.1	(21.5)	(6.9)	131	170	181	80.2	(9.3)	5.9
EPS (Rs)	23.6	25.8	16.7	20.9	22.0	20.3	22.7	17.4	(17.5)	(8.1)	14.3	18.5	19.7	80.2	(9.3)	5.9

Source: Company, Bloomberg, BOBCAPS Research

Fig 47 – IOCL: Key assumptions

(Rs bn)	FY21	FY22E	FY23E	FY24E
Refining	66	166	88	101
Marketing	215	124	122	172
Petrochemicals	61	56	57	57
Pipeline	57	63	68	71
Others	6	(1)	(12)	(7)
CPCL EBITDA	10	8	5	6
Consolidated EBITDA	417	416	330	401
YoY Growth (%)		(0.4)	(20.7)	21.6
Refining throughput (mt)	62.4	66.9	70.0	70.9
YoY Growth (%)	(10.1)	7.2	4.6	1.3
Domestic Marketing sales (mt)	69.4	72.5	76.5	80.8
YoY Growth (%)	(11.7)	4.5	5.5	5.6
Pipeline throughput (mt)	76.0	83.0	89.1	92.7
YoY Growth (%)	(19.4)	9.3	7.3	4.0
Exchange rate	74.2	74.5	76.5	78.0
Crude price (US\$/bbl)	80.7	82.5	75.0	75.0
GRM (US\$/bbl)	5.6	8.1	5.3	5.5
Marketing EBITDA (Rs/t)	2,927	1,575	1,500	2,000
Petrochemicals EBITDA (US\$/t)	303	264	247	229

Source: Company, BOBCAPS Research

Valuation

Our TP increases to Rs 150 (from Rs 135) as we roll forward valuations to FY24. We value the refining and marketing business at an unchanged multiple of 5.5x FY24E 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. At this juncture, we do not capture the benefit of future projects achieving commercial operation beyond FY24.

Fig 48 – IOCL: Valuation summary

Business segments	New		Comments	Old
	EV (Rs bn)	Value (Rs/sh)		Value (Rs/sh)
Refining				
Refining	558	61	5.5x FY24E EBITDA	35
Marketing	944	103	5.5x FY24E EBITDA	101
Petrochemicals	342	37	6x FY24E EBITDA	37
Pipeline	427	47	6x FY24E EBITDA	42
Others	(40)	(4)	6x FY24E EBITDA	4
Total core business EV	2,231	243		220
Less: Net Debt	1,078	117		104
Equity value of core business	1,153	126		116
Investments	225	25	Listed holdings at 20% discount to CMP, and others at investment value	20
Total equity value for IOCL	1,378	150		135
Target price rounded to nearest Rs 5	-	150		135

Source: BOBCAPS Research

Key downside risks for OMCs

OMC valuations are highly sensitive to refining and marketing margins. Key downside risks to our estimates are as follows:

- Oil prices have surged close to US\$ 120/bbl levels following Russia's invasion of Ukraine. While the Western world is aiming to avoid sanctions on energy flow out of Russia, such measures are not off the table. Any long-term disruption in crude exports from Russia could keep oil prices elevated.
- 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.
- A slowdown in global economies could lead to below-expected refining margins and petrochemical spreads. 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 below-expected volumes and affect marketing business earnings.
- 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 IOCL's pipelines could hurt pipeline business earnings.

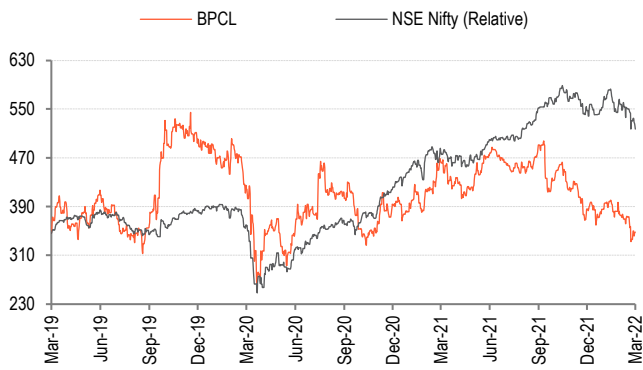
Sector recommendation snapshot

Stock	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Bharat Petroleum Corp	BPCL IN	9.5	348	450	BUY
Hindustan Petroleum Corp	HPCL IN	5.1	285	410	BUY
Indian Oil Corp	IOCL IN	13.7	113	150	BUY

Source: BOBCAPS Research, NSE | Price as of 4 Mar 2022

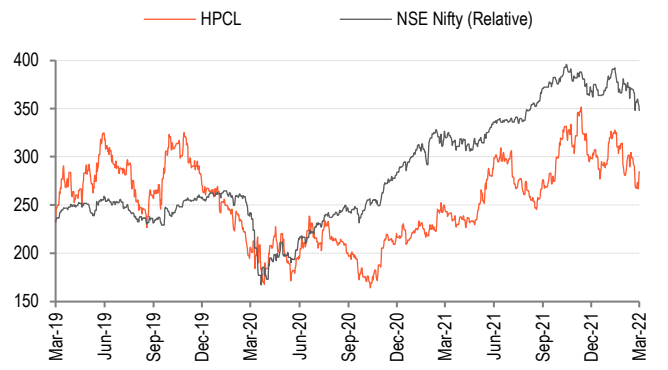
Stock performance charts

Fig 49 – BPCL



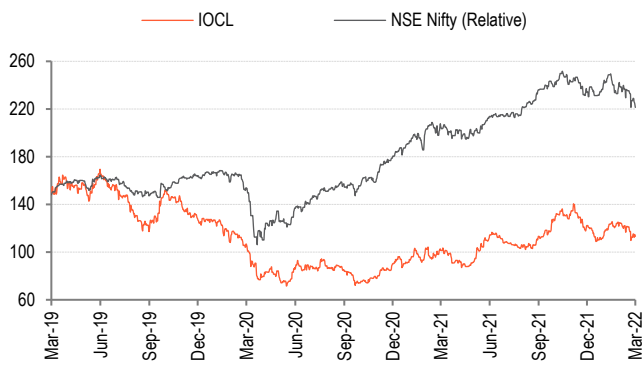
Source: NSE

Fig 50 – HPCL



Source: NSE

Fig 51 – IOCL



Source: NSE

Financials – BPCL

Income Statement

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Total revenue	28,45,719	23,01,626	39,23,343	41,71,234	37,92,511
EBITDA	89,311	2,12,964	1,78,798	1,61,116	2,03,824
Depreciation	(40,801)	(43,342)	(52,498)	(58,387)	(64,068)
EBIT	48,510	1,69,622	1,26,299	1,02,730	1,39,757
Net interest inc./(exp.)	(26,370)	(17,234)	(23,329)	(23,528)	(22,759)
Other inc./(exp.)	19,293	22,530	18,176	13,954	14,952
Exceptional items	(18,925)	52,658	0	0	0
EBT	41,433	1,74,918	1,21,146	93,155	1,31,950
Income taxes	142	(51,122)	(32,205)	(25,736)	(36,017)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	7,903	14,804	(16,000)	(16,800)	(17,640)
Reported net profit	14,749	1,61,650	1,04,941	84,219	1,13,574
Adjustments	0	0	0	0	0
Adjusted net profit	33,673	1,20,821	1,04,941	84,219	1,13,574

Balance Sheet

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Accounts payables	1,31,077	1,62,627	2,35,332	2,51,718	2,33,963
Other current liabilities	2,77,197	3,50,926	4,47,703	4,53,016	4,79,125
Provisions	36,354	35,592	35,592	35,592	35,592
Debt funds	6,16,482	4,75,881	4,66,873	4,79,373	4,51,873
Other liabilities	61,639	49,345	49,345	49,345	49,345
Equity capital	19,669	20,929	21,295	21,295	21,295
Reserves & surplus	3,45,655	5,14,622	5,71,793	6,15,863	6,73,868
Shareholders' fund	3,65,323	5,35,551	5,93,087	6,37,157	6,95,163
Total liab. and equities	15,08,636	16,09,920	18,27,931	19,06,200	19,45,060
Cash and cash eq.	11,648	81,101	8,269	4,828	36,966
Accounts receivables	53,780	78,348	83,445	88,741	80,670
Inventories	2,22,426	2,67,060	3,85,945	4,12,818	3,83,700
Other current assets	1,07,462	38,614	52,386	52,362	52,326
Investments	2,70,285	2,67,677	2,41,228	2,46,228	2,51,228
Net fixed assets	6,01,746	6,40,983	8,45,177	8,96,610	9,39,421
CWIP	1,77,567	1,71,401	1,61,865	1,54,998	1,51,133
Intangible assets	0	0	0	0	0
Deferred tax assets, net	13,848	11,616	11,616	11,616	11,616
Other assets	49,873	53,120	38,000	38,000	38,000
Total assets	15,08,636	16,09,920	18,27,931	19,06,200	19,45,060

Cash Flows

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Cash flow from operations	62,914	2,20,657	1,55,210	1,18,207	2,08,267
Capital expenditures	(1,87,171)	(76,413)	(1,02,389)	(1,02,953)	(1,03,012)
Change in investments	(21,216)	2,608	(9,648)	(5,000)	(5,000)
Other investing cash flows	19,293	22,530	18,176	13,954	14,952
Cash flow from investing	(1,89,093)	(51,275)	(93,861)	(93,999)	(93,060)
Equities issued/Others	0	1,260	365	0	0
Debt raised/repaid	1,87,337	(1,40,602)	(81,500)	12,500	(27,500)
Interest expenses	0	0	0	0	0
Dividends paid	(37,971)	(1,93,448)	(53,046)	(40,149)	(55,568)
Other financing cash flows	(85,001)	1,80,202	0	0	0
Cash flow from financing	64,365	(1,52,587)	(1,34,181)	(27,649)	(83,068)
Chg in cash & cash eq.	(61,814)	16,795	(72,832)	(3,442)	32,139
Closing cash & cash eq.	(55,189)	28,444	8,269	4,828	36,966

Per Share

Y/E 31 Mar (Rs)	FY20A	FY21A	FY22E	FY23E	FY24E
Reported EPS	6.9	75.9	49.3	39.5	53.3
Adjusted EPS	15.8	56.7	49.3	39.5	53.3
Dividend per share	16.5	79.0	21.3	16.1	22.3
Book value per share	185.7	255.9	278.5	299.2	326.5

Valuations Ratios

Y/E 31 Mar (x)	FY20A	FY21A	FY22E	FY23E	FY24E
EV/Sales	0.4	0.6	0.3	0.3	0.3
EV/EBITDA	12.9	6.0	7.0	7.3	6.0
Adjusted P/E	22.0	6.1	7.1	8.8	6.5
P/BV	1.9	1.4	1.3	1.2	1.1

DuPont Analysis

Y/E 31 Mar (%)	FY20A	FY21A	FY22E	FY23E	FY24E
Tax burden (Net profit/PBT)	149.6	53.1	86.6	90.4	86.1
Interest burden (PBT/EBIT)	46.4	134.2	95.9	90.7	94.4
EBIT margin (EBIT/Revenue)	1.7	7.4	3.2	2.5	3.7
Asset turnover (Rev./Avg TA)	197.8	147.6	228.2	223.4	196.9
Leverage (Avg TA/Avg Equity)	3.8	3.5	3.0	3.0	2.9
Adjusted ROAE	8.9	26.8	18.6	13.7	17.0

Ratio Analysis

Y/E 31 Mar	FY20A	FY21A	FY22E	FY23E	FY24E
YoY growth (%)					
Revenue	(4.6)	(19.1)	70.5	6.3	(9.1)
EBITDA	(40.9)	138.5	(16.0)	(9.9)	26.5
Adjusted EPS	(54.4)	258.8	(13.1)	(19.7)	34.9
Profitability & Return ratios (%)					
EBITDA margin	3.1	9.3	4.6	3.9	5.4
EBIT margin	1.7	7.4	3.2	2.5	3.7
Adjusted profit margin	1.2	5.2	2.7	2.0	3.0
Adjusted ROAE	8.9	26.8	18.6	13.7	17.0
ROCE	5.3	13.1	9.0	6.8	9.0
Working capital days (days)					
Receivables	8	10	8	8	8
Inventory	33	48	35	40	43
Payables	20	26	19	22	25
Ratios (x)					
Gross asset turnover	4.3	2.9	4.1	3.7	3.0
Current ratio	0.6	0.8	0.7	0.7	0.7
Net interest coverage ratio	1.8	9.8	5.4	4.4	6.1
Adjusted debt/equity	1.7	0.7	0.8	0.7	0.6

Source: Company, BOBCAPS Research

Financials – HPCL

Income Statement

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Total revenue	26,90,915	23,32,485	34,18,567	38,78,579	37,48,492
EBITDA	56,625	1,60,034	1,04,358	1,09,952	1,43,836
Depreciation	(33,699)	(36,255)	(39,136)	(43,723)	(48,310)
EBIT	22,926	1,23,779	65,222	66,229	95,526
Net interest inc./(exp.)	(11,389)	(9,633)	(8,469)	(9,024)	(9,731)
Other inc./(exp.)	16,816	26,437	20,591	22,779	25,909
Exceptional items	(10,029)	0	0	0	0
EBT	28,354	1,40,583	77,345	79,984	1,11,703
Income taxes	12,644	(35,341)	(19,416)	(20,005)	(28,036)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	(4,582)	1,387	(14,972)	(9,723)	(15,277)
Reported net profit	35,551	1,03,856	72,901	69,701	98,944
Adjustments	0	0	0	0	0
Adjusted net profit	45,580	1,03,856	72,901	69,701	98,944

Balance Sheet

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Accounts payables	1,14,726	1,77,987	2,31,660	2,34,024	2,21,976
Other current liabilities	35,077	64,494	93,524	82,600	79,006
Provisions	26,852	28,839	28,839	28,839	28,839
Debt funds	3,93,858	4,26,741	4,11,741	4,81,741	4,81,741
Other liabilities	2,88,780	2,62,729	2,66,735	2,70,863	2,76,648
Equity capital	15,242	14,524	14,524	14,524	14,524
Reserves & surplus	2,94,564	3,66,285	4,08,767	4,47,881	5,12,668
Shareholders' fund	3,09,806	3,80,809	4,23,291	4,62,405	5,27,192
Total liab. and equities	11,69,099	13,41,597	14,55,790	15,60,471	16,15,402
Cash and cash eq.	2,231	5,749	1,999	5,319	15,214
Accounts receivables	39,342	68,700	67,218	74,173	71,678
Inventories	1,93,260	2,87,639	3,00,299	2,92,530	2,77,470
Other current assets	1,29,094	66,095	66,095	66,095	66,095
Investments	1,43,956	1,50,934	1,75,934	2,00,934	2,25,934
Net fixed assets	4,89,351	5,05,903	5,50,167	5,89,844	6,24,934
CWIP	1,71,698	2,53,360	2,90,860	3,28,360	3,30,860
Intangible assets	167	3,216	3,216	3,216	3,216
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
Total assets	11,69,099	13,41,597	14,55,790	15,60,471	16,15,402

Cash Flows

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Cash flow from operations	60,589	1,24,321	1,66,977	87,028	1,29,043
Capital expenditures	(1,79,253)	(1,34,469)	(1,20,900)	(1,20,900)	(85,900)
Change in investments	(1,051)	(5,131)	(25,000)	(25,000)	(25,000)
Other investing cash flows	16,886	24,590	20,591	22,779	25,909
Cash flow from investing	(1,63,418)	(1,15,010)	(1,25,309)	(1,23,121)	(84,991)
Equities issued/Others	0	(718)	0	0	0
Debt raised/repaid	1,33,493	32,883	(15,000)	70,000	0
Interest expenses	0	0	0	0	0
Dividends paid	(17,383)	(38,660)	(30,418)	(30,588)	(34,156)
Other financing cash flows	(5,467)	702	0	0	0
Cash flow from financing	1,10,643	(5,793)	(45,418)	39,412	(34,156)
Chg in cash & cash eq.	7,813	3,518	(3,750)	3,319	9,895
Closing cash & cash eq.	9,998	5,749	1,999	5,319	15,214

Per Share

Y/E 31 Mar (Rs)	FY20A	FY21A	FY22E	FY23E	FY24E
Reported EPS	23.3	71.5	50.2	48.0	68.1
Adjusted EPS	29.9	71.5	50.2	48.0	68.1
Dividend per share	9.7	22.8	17.9	18.0	20.1
Book value per share	203.3	262.2	291.4	318.4	363.0

Valuations Ratios

Y/E 31 Mar (x)	FY20A	FY21A	FY22E	FY23E	FY24E
EV/Sales	0.2	0.3	0.2	0.2	0.2
EV/EBITDA	8.8	3.7	6.3	6.0	4.6
Adjusted P/E	9.5	4.0	5.7	5.9	4.2
P/BV	1.4	1.1	1.0	0.9	0.8

DuPont Analysis

Y/E 31 Mar (%)	FY20A	FY21A	FY22E	FY23E	FY24E
Tax burden (Net profit/PBT)	248.7	73.9	94.3	87.1	88.6
Interest burden (PBT/EBIT)	79.9	113.6	118.6	120.8	116.9
EBIT margin (EBIT/Revenue)	0.9	5.3	1.9	1.7	2.5
Asset turnover (Rev./Avg TA)	240.0	185.8	244.4	257.2	236.1
Leverage (Avg TA/Avg Equity)	3.7	3.6	3.5	3.4	3.2
Adjusted ROAE	14.9	30.1	18.1	15.7	20.0

Ratio Analysis

Y/E 31 Mar	FY20A	FY21A	FY22E	FY23E	FY24E
YoY growth (%)					
Revenue	(2.3)	(13.3)	46.6	13.5	(3.4)
EBITDA	(50.9)	182.6	(34.8)	5.4	30.8
Adjusted EPS	(5.7)	139.1	(29.8)	(4.4)	42.0
Profitability & Return ratios (%)					
EBITDA margin	2.1	6.9	3.1	2.8	3.8
EBIT margin	0.9	5.3	1.9	1.7	2.5
Adjusted profit margin	1.7	4.5	2.1	1.8	2.6
Adjusted ROAE	14.9	30.1	18.1	15.7	20.0
ROCE	3.6	12.3	5.9	5.6	7.3
Working capital days (days)					
Receivables	7	8	7	7	7
Inventory	122	268	173	117	112
Payables	20	25	23	23	23
Ratios (x)					
Gross asset turnover	4.6	3.5	4.7	4.8	4.2
Current ratio	1.1	1.0	0.9	0.9	0.9
Net interest coverage ratio	2.0	12.8	7.7	7.3	9.8
Adjusted debt/equity	1.3	1.1	1.0	1.0	0.9

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

Financials – IOCL

Income Statement

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Total revenue	48,37,630	36,39,497	61,90,822	65,15,638	62,16,308
EBITDA	1,62,318	4,17,047	4,15,586	3,29,610	4,00,820
Depreciation	(1,02,734)	(1,09,415)	(1,11,136)	(1,24,400)	(1,40,904)
EBIT	59,584	3,07,633	3,04,451	2,05,210	2,59,916
Net interest inc./(exp.)	(65,787)	(35,891)	(42,428)	(51,284)	(55,286)
Other inc./(exp.)	33,818	23,799	41,133	36,575	36,734
Exceptional items	1,13,046	0	0	0	0
EBT	27,615	2,95,540	3,03,156	1,90,500	2,41,364
Income taxes	53,007	(89,885)	(75,746)	(47,871)	(60,643)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	23,493	10,727	9,276	11,135	10,847
Reported net profit	(8,931)	2,16,382	2,36,685	1,53,764	1,91,569
Adjustments	0	0	0	0	0
Adjusted net profit	80,622	2,16,382	2,36,685	1,53,764	1,91,569

Balance Sheet

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Accounts payables	2,75,763	3,72,412	4,72,566	5,03,235	4,00,235
Other current liabilities	5,64,560	6,24,965	7,40,917	7,98,002	7,48,753
Provisions	1,12,335	1,08,992	1,03,459	95,748	98,250
Debt funds	12,67,576	11,75,006	12,05,463	12,87,294	13,85,441
Other liabilities	1,14,393	1,39,645	1,48,455	1,54,887	1,61,469
Equity capital	91,810	91,810	91,810	91,810	91,810
Reserves & surplus	8,62,169	10,26,570	11,45,547	11,91,695	12,73,183
Shareholders' fund	9,53,979	11,18,381	12,37,358	12,83,506	13,64,994
Total liab. and equities	32,97,368	35,49,159	39,20,668	41,35,954	41,73,546
Cash and cash eq.	22,960	24,747	10,353	5,763	(7,303)
Accounts receivables	1,32,595	1,38,003	1,51,144	1,59,275	1,52,038
Inventories	6,70,108	8,34,275	9,90,060	10,43,527	9,75,850
Other current assets	3,17,328	1,71,213	1,68,536	1,77,214	1,69,690
Investments	3,55,709	4,47,168	5,02,168	5,02,168	5,02,168
Net fixed assets	14,70,211	15,70,838	16,59,358	18,26,818	20,02,776
CWIP	3,28,448	3,62,905	4,46,039	4,34,178	3,97,317
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	32,97,368	35,49,159	39,27,668	41,48,954	41,92,546

Cash Flows

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Cash flow from operations	21,997	4,57,501	3,59,821	2,57,788	2,35,012
Capital expenditures	(1,90,925)	(2,44,498)	(2,82,790)	(2,80,000)	(2,80,000)
Change in investments	85,414	(91,460)	(55,000)	0	0
Other investing cash flows	33,818	23,799	41,133	36,575	36,734
Cash flow from investing	(71,693)	(3,12,159)	(2,96,656)	(2,43,425)	(2,43,266)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	3,34,299	(92,571)	30,457	81,831	98,148
Interest expenses	0	0	0	0	0
Dividends paid	(56,394)	(1,28,916)	(1,17,708)	(1,07,616)	(1,10,080)
Other financing cash flows	(2,15,896)	99,750	736	709	930
Cash flow from financing	62,009	(1,21,736)	(86,515)	(25,076)	(11,003)
Chg in cash & cash eq.	12,313	23,606	(23,350)	(10,713)	(19,256)
Closing cash & cash eq.	22,960	46,565	1,398	(360)	(13,494)

Per Share

Y/E 31 Mar (Rs)	FY20A	FY21A	FY22E	FY23E	FY24E
Reported EPS	(1.0)	23.6	25.8	16.7	20.9
Adjusted EPS	8.8	23.6	25.8	16.7	20.9
Dividend per share	5.2	12.0	11.0	10.0	10.2
Book value per share	103.9	121.8	134.8	139.8	148.7

Valuations Ratios

Y/E 31 Mar (x)	FY20A	FY21A	FY22E	FY23E	FY24E
EV/Sales	0.4	0.6	0.4	0.3	0.4
EV/EBITDA	11.3	5.2	5.4	6.8	5.7
Adjusted P/E	12.9	4.8	4.4	6.8	5.4
P/BV	1.1	0.9	0.8	0.8	0.8

DuPont Analysis

Y/E 31 Mar (%)	FY20A	FY21A	FY22E	FY23E	FY24E
Tax burden (Net profit/PBT)	(94.4)	73.2	78.1	80.7	79.4
Interest burden (PBT/EBIT)	(143.4)	96.1	99.6	92.8	92.9
EBIT margin (EBIT/Revenue)	1.2	8.5	4.9	3.1	4.2
Asset turnover (Rev./Avg TA)	145.6	106.3	165.6	161.3	149.0
Leverage (Avg TA/Avg Equity)	3.2	3.3	3.2	3.2	3.1
Adjusted ROAE	7.8	20.9	20.1	12.2	14.5

Ratio Analysis

Y/E 31 Mar	FY20A	FY21A	FY22E	FY23E	FY24E
YoY growth (%)					
Revenue	(8.4)	(24.8)	70.1	5.2	(4.6)
EBITDA	(53.9)	156.9	(0.4)	(20.7)	21.6
Adjusted EPS	(53.6)	168.4	9.4	(35.0)	24.6
Profitability & Return ratios (%)					
EBITDA margin	3.4	11.5	6.7	5.1	6.4
EBIT margin	1.2	8.5	4.9	3.1	4.2
Adjusted profit margin	1.7	5.9	3.8	2.4	3.1
Adjusted ROAE	7.8	20.9	20.1	12.2	14.5
ROCE	2.8	9.4	9.6	6.1	7.3
Working capital days (days)					
Receivables	11	14	9	9	9
Inventory	63	100	62	65	69
Payables	27	37	27	29	28
Ratios (x)					
Gross asset turnover	2.8	1.9	2.9	2.7	2.3
Current ratio	0.7	0.7	0.7	0.7	0.7
Net interest coverage ratio	0.9	8.6	7.2	4.0	4.7
Adjusted debt/equity	1.3	1.0	1.0	1.0	1.0

Source: Company, BOBCAPS Research

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Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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