

Hindustan Petroleum Corporation

10 August 2020

Reuters: HPCL.NS; Bloomberg: HPCL IN

Marketing prevails over refining muddle

We maintain Buy on HPCL with a target price (TP) of Rs343, which we have arrived at based on 7x PE on our unchanged consolidated FY22E EPS. The standalone 1QFY21 results were a massive beat vs. our estimates. The adjusted PAT came in at Rs28.2bn vs our estimate of Rs14.8bn and 3.5x the PAT reported in 1QFY20. The beat was due to Gross/EBITDA margins coming in 181bps/352bps above our forecast, driven by robust unit EBITDA margin on marketing volume ~ Rs6351/te, as per our proforma analysis. Reported GRM came in at a paltry US\$0.04/bbl, including refining inventory gain of Rs2.01bn vs. NBIE estimate of US\$4.33/bbl (including refining inventory gain of Rs6.37bn). During the concall, the management had a tough time explaining the inventory accounting, especially the variance across its peers and did not elaborate on the drivers for the YoY surge in earnings, despite weak refining margins. The CMD said that the marketing margins were normal and healthy. He also alluded to savings in logistics and overhead costs. In the medium term, we are bullish on OMCs as (i) Sub-US\$40-50/bbl oil prices are positive for retail margins; (ii) GRMs could also eventually recover as current low margins are unsustainable and could force refining capacity closures; (iii) A surplus in OPEC implies an increase in light-heavy oil price spread; this could widen further as the output of US shale oil (light sweet grade) will see a secular decline due to weak oil prices and drying up of financing. We also see a potential rerating in HPCL post the upgradation project in Vizag (by CY22) based on the GRM upside - potential upside of Rs12.98/Rs59.43 per share in HPCL.

1QFY21 adjusted standalone PAT of Rs28.14bn vs Rs8.11bn in corresponding quarter last year: Net revenue came in 5.4% above NBIE estimate but 46.9% lower YoY at Rs377.21bn. At gross contribution and EBITDA levels, reported numbers were above our estimates, driven by higher than expected marketing margins and other expenditure coming 14.8% below our estimate. Core GRM came in at minus US\$0.88/bbl - net of inventory gain of US\$0.92/bbl.

1QFY21 volume: Refining throughput came in at 3.97mn tonnes vs 3.92mn tonnes last year. Sales volume was hit by lockdown and came in at 7.62mn tonnes vs. 10.09mn tonnes a year ago. The management said that volume is improving to ~75% of normal levels.

Impact on 1QFY21 EBITDA and PBT YoY: The standalone results showed growth in gross margins by 1315bps to 20.66%. EBITDA came in at Rs43.54bn vs Rs16.44bn a year ago. The company had PBT of Rs37.28bn vs PBT of Rs12.39bn a year ago. Other expenses fell by 10.5% YoY - the management attributed this to savings in operating costs (including logistics costs supported by new pipelines, travel, outsourced staff cost and office expenses).

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BUY

Sector: Oil and Gas

CMP: Rs214

Target Price: Rs343

Upside: 60.3%

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Key Data

Current Shares O/S (mn)	1,523.8
Mkt Cap (Rsbn/US\$bn)	325.4/4.3
52 Wk H / L (Rs)	329/150
Daily Vol. (3M NSE Avg.)	8,373,633

Price Performance (%)

	1-M	6-M	1-Y
HPCL	1.8	(10.6)	(13.6)
Nifty Index	4.1	(6.8)	0.9

Source: Bloomberg

Y/E March (Rsmn)	1QFY20	1QFY21	Ch YoY (%)	*4QFY20	Ch QoQ (%)	1QFY21E	Var. (%)
Net sales	7,09,889	3,77,209	-46.9	6,61,549	-43.0	3,57,739	5.4
Cost of goods	6,56,571	2,99,296	-54.4	6,16,297	-51.4	2,90,340	3.1
Contribution	53,319	77,913	46.1	45,252	72.2	67,400	15.6
Employee benefits expenses	8,125	8,643	6.4	8,382	3.1	8,531	1.3
Other expenses	28,754	25,733	-10.5	35,201	-26.9	30,192	-14.8
EBITDA	16,439	43,536	164.8	1,669	2,508	28,676	51.8
EBITDAM (%)	2.32	11.54	922.6	0.25	1,128.9	8.02	352.6
Depreciation	8,151	8,661	6.3	8,114	6.7	10,102	-14.3
Other income	4,235	5,133	21.2	4,241	21.0	4,204	22.1
Interest expenses	2,063	3,217	55.9	3,374	-4.7	2,982	7.9
Profit on foreign currency transaction	1,930	493	-	-8,735	-	0	-
PBT before exceptional items	12,390	37,284	200.9	-14,313	-360.5	19,796	88.3
Exceptional items	-	-	-	-10,029	-	-	-
PBT	12,390	37,284	200.9	-24,343	-253.2	19,796	88.3
Reported Tax	4,281	9,146	113.6	-24,611	-137.2	4,983	83.6
PAT reported	8,110	28,138	247	268	10,399	14,814	89.9
Adjusted PAT	8,110	28,138	247	10,297	173	14,814	89.9
NPM (%)	1.14	7.46	631	1.56	590	4.14	331

Source: Company, Nirmal Bang Institutional Equities Research; *4QFY20 EBITDA adjusted to exclude fx loss

Consolidated adjusted PAT of Rs22.53bn for 1QFY21 vs Rs8.77bn a year ago: Consolidated adjusted PAT for 1QFY21 stood at Rs22.53bn vs Rs8.77bn last year. The 1QFY21 share of earnings from its associates was a loss of Rs5.58bn vs. profit of Rs1bn YoY.

Exhibit 1: 1QFY21 result vs NIBE and Consensus estimates

Rs Bn	1QFY21E	1QFY21A	Var %	Bloomberg Consensus	Var %
Net Revenue	357.7	377.2	5.4	427.8	(11.8)
EBITDA	28.7	34.8	21.4	26.4	32.1
PAT	14.8	19.4	31.0	15.2	27.4

Source: Nirmal Bang Institutional Equities Research., Bloomberg; Note: NBIE estimates standalone. Bloomberg estimates are consolidated

Rating Rationale:

We maintain our TP at Rs343 based on FY22E PE of 7x (based on historical average). This is in line with our target PE for BPCL.

There could be a potential rerating upside in HPCL post completion of the expansion cum bottom upgradation project at Vizag refinery (expected by CY22) – **HPCL had indicated during its 4QFY20 result concall that this project could result in GRM upside of US\$6-8/bbl for its Vizag refinery, in addition to volume growth. This implies a potential upside of Rs12.98/Rs59.43 per share in HPCL stock based on preliminary DCF based estimate.**

Other drivers for the stock are likely to be expectations of improvement in retail margins under soft oil prices and steady refining earnings.

We maintain Buy rating based on the following:

- Improvement in retail margins under soft oil prices, steady refining margins (assuming normalcy in fuel spreads over crude) and long-term prospects for upside in volume and GRMs post Vizag expansion.
- The news flow on bidding interest and consensus expectations on the deal valuation for BPCL stake sale could be an added catalyst for HPCL stock price. **This could wax and wane in line with progress on the timeline and the news flow on bidding interest and potential control premium.**
- Current valuation on 12month trailing PE on FY20 earnings is at 8.9x, which compares with the average reading of 8.3x for this measure over FY10-19.
- We also see its market leading lubs business and CGD initiatives as long term positives.

Exhibit 2: HPCL historical PE trend

	FY10	FY11	FY12	FY13	FY15	FY16	FY17	FY18	FY19
EPS Rs	8.54	10.10	5.98	5.94	11.38	17.93	24.45	40.74	41.71
Trailing PE (x)	8.22	7.61	10.56	10.52	6.05	8.05	7.14	8.60	8.25
Forward PE (x)	6.95	12.85	10.64	5.49	3.84	5.91	4.28	8.40	8.70

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: NBIE vs. Bloomberg consensus estimates for HPCL

	NBIE est.		Bloomberg Consensus	
	FY21E	FY22E	FY21E	FY22E
EPS	31.56	48.97	28.92	41.28

Source: Nirmal Bang Institutional Equities Research, Bloomberg

Exhibit 4: 10 Year forward P/E trend


Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: HPCL summary consolidated financials

Y/E March (Rsmn)	FY18	FY19	FY20	FY21E	FY22E
Revenues	21,95,098	27,54,734	26,90,915	23,74,937	28,15,865
EBITDA	1,10,353	1,15,671	56,625	94,460	1,31,824
Consolidated Net Profit Adj	72,182	66,906	36,417	48,106	74,646
EPS (Rs)	47.36	43.90	23.89	31.56	48.97
EPS gr (%)	-12.4	-7.3	-45.6	32.1	55.2
EBITDA Margin (%)	5.0	4.2	2.1	4.0	4.7
P/E	4.5	4.9	8.9	6.8	4.4
EV/EBITDA	6.0	5.7	11.7	7.0	5.0
P/BV	1.28	1.07	1.05	0.97	0.86
Dividend Yield (%)	7.13	4.21	4.56	4.68	5.62
Net Debt (cash)/Equity (X)	1.04	1.16	1.09	0.95	0.83
RoCE (%)	14.4	11.7	6.0	7.0	10.0
RoE (%)	30.98	23.92	11.75	14.87	20.82

Source: Company, Nirmal Bang Institutional Equities Research

HPCL conference call highlights:

Summary conclusions

HPCL's core GRM is likely to improve by 3QFY21 as the excess inventory gets absorbed. Demand for petroleum fuels is likely to revive with easing of lockdown and pick-up in business and public activities. The company pointed to the recent PMI data from the EU, China and India, which supports this view. The likely increase in OPEC plus supplies by 2mn bpd as the group tapers off production cuts is also likely to support increase in spreads once demand picks up.

- Product spreads were weak in 1QFY21 due to excess stock; GRMs to improve by 3QFY21 once the stocks get absorbed and demand improves with resumption of normal activities
- The management did not give details on marketing EBITDA or retail margins, but said that retail margins were at normal levels as in the previous periods

- According the CMD, in the absence of a second wave of Covid-19 outbreak, the worst is over and the outlook for refining and marketing is likely to improve to normal levels of throughput and demand over the coming months.
- The company has 16,707 fuel retail outlets and is a distant second to industry leader IOC with > 29,000 outlets
- The inventory impact is likely to be normalized in the coming quarters

Financial performance:

The quarter witnessed demand contraction due to reduced fuel consumption amid lockdown.

The volatility in crude as well as product prices due to supply cuts also affected the financial performance.

Despite these challenges, HPCL's PAT tripled in 1QFY21 from a year ago.

- HPCL's 1QFY21 revenue fell by 38.43% YoY because of (i) decline in sales volume and (ii) fall in crude price following a price war among major crude suppliers.
- 1QFY21 EBITDA was supported by inventory gain of Rs6.33bn vs inventory loss of Rs5.36bn and Rs41.13bn in 1QFY20 and 4QFY20, respectively.
- Fx gain was lower at Rs490mn vs Rs1.86bn in 1QFY20 – this is included in other income.
- The 1QFY21 GRM reported was wafer thin at US\$0.04/bbl, including the refining inventory gain of Rs2.01bn. This implies core margin at minus US\$0.88/bbl, which the company dismissed as an accounting calculation.

Exhibit 6: Inventory gain as on 30th June, 2020:

	1QFY21 Rsbn	1QFY20 Rsbn	4QFY20 Rsbn
Refining Inventory gain/(loss)	2.01	(5.16)	(25.84)
Marketing Inventory gain/(loss)	4.32	(0.2)	(15.29)
Total Inventory gain/(loss)	6.33	(5.36)	(41.13)

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: Inventory levels as on 30th June, 2020:

	'000 tonnes
Crude	1283
Products	3000

Source: Company, Nirmal Bang Institutional Equities Research

Margins:

Refining product cracks continued to be weak given the inventory overhang.

Exhibit 8: Margin

	1QFY21 (Average)
Singapore bench mark GRM	(\$0.93)
MS Crack	\$0.5
Diesel Crack	\$3.18
HPCL GRM	\$0.04
Crude price	\$29.6/bbl, hi/lo – US\$43.6/13

Source: Company, Nirmal Bang Institutional Equities Research

The marketing margin was at normal level as in the previous period, as per HPCL CMD. He evaded questions on retail margins and said that he would not like to get into these details.

Standalone segment EBITDA earnings for 1QFY21:

The company has stopped giving segment details.

We estimate that refining had a loss of Rs5.35bn and marketing EBITDA came in at Rs48.4bn.

Our analysis shows that 1QFY21 marketing EBITDA/te (including marketing inventory impact) came in at Rs6351/te vs. Rs2016/te in 1QFY20 and Rs1236/te in 4QFY20.

HPCL CMD's view on inventory gain/loss estimation

The cost of crude stocks held by HPCL as on March'20/June'20 reported at US\$36/40 per bbl. IOC had reported a decline of US\$4/bbl in its crude stock valuation in 1QFY21 and had a huge inventory loss of Rs45bn in refining. Its subsidiary CPCL had reported a massive spike in its GRM by more than US\$10/bbl YoY. Hence, the management faced several questions on inventory accounting and the variance in HPCL's GRM vs. its peers.

HPCL CMD said that there are many moving parts that impact GRM and inventory gain/loss

These include industry/company specific factors related to:

- Operations - product pattern which determines the grade of crude used/purchased; this impacts cost of crude, source, lead time and product yield
- Production/sales plan also varies across companies
- Inventory holding practices for crude and product involve tactical and long-term considerations - this differs according to market and varies across companies
- Example – companies holding less inventory (no. of days) or just in time and process much of the crude purchased tend to face less inventory impact vs. those holding higher level of crude stock or produce less from a given level. This difference can also occur for the same entity across different quarters depending on market conditions and business economics.
- Crude cost:
 - purchase contracts, source, pricing and lead time and date of delivery and
 - the cost of crude used to process products, the lead time to receive crude, process it into fuels and move products from refinery gate,
- transfer price to marketing outlets/depots and final sale/selling price - because crude may be of a prior date while transfer pricing is as on date. Final selling price is reviewed daily (he did not make it clear if the legacy 15 day average for refining transfer price is also changed to daily basis as in marketing)
- And cost of crude held in stock as of opening and closing date of an accounting period
- And the cost or market value (net realisable value) which is less for products held in stock ~ as per accounting standards

HPCL CMD settled the debate by suggesting that it is best to focus on product spreads and treat inventory impact as an accounting entry. In his view:

- timing difference in crude purchase impacts inventory gain/loss
- the spreads on date of transfer determines the GRM

NBIE view:

We agree that the reported spreads and margins are more relevant. The core margin is more relevant for long term valuations using midcycle pricing/spreads.

Refinery utilisation and marketing:

Refining: Capacity utilisation of 101% during the quarter with a throughput of 3.97mn tonnes

The company ran its refineries at full capacity unlike its peers that functioned at 50-70% capacity utilisation. The decision to run at full capacity was based on the need to be less dependent on other refiners as the company sells more volume than it processes.

Marketing: 1QFY21 sales volume reported at 7.62mn tonnes – this represents a demand de-growth of 24.5% YoY in HPCL volume vs 29.2% YoY decline in industry volume.

There was a seasonal dip in diesel sales in July due to the monsoon hampering transportation of goods and rural activities.

Exhibit 9: HPCL's sales volumes trend in 1QFY21 relative to normal volume (%)

PRODUCT	April 20	May 20	June 20	1QFY21	July 20
MS	38	61	85	63	89
HSD	45	71	85	67	82.6

Source: Company, Nirmal Bang Institutional Equities Research

The aggregate industry demand for all petroleum products in 1QFY21 came in at 74.2% of 1QFY20 consumption. In June'20, the aggregate petroleum sales volume touched 91% of June'19 figures. HPCL expects industry sales volume to touch 90-100% of normal consumption once industrial and construction activity picks up in July.

Lubs: The company has retained its ranking as India's market leader in lubricants. HPCL's April -July sales are at par with last year's volume. In 1QFY21, HPCL lub sales fell by 17% YoY vs. 30% YoY decline in industry volume. Based on the above trends, HPCL lub sales volume has likely seen positive YoY growth in July and also helped the company to gain market share.

The management expects a revival in petroleum demand (barring ATF) to pre-covid levels in the coming months as industrial and commercial activity picks up.

The HPCL CMD said that demand is unlikely to fall below 75% of normal levels and there is no serious concern of demand contraction going ahead.

Project activities:

The management stated that the new projects are based on threshold IRR targets and that the capex on ongoing projects will not be held back as they are in advanced stages of completion.

Exhibit 10: Ongoing projects:

Vizag refinery expansion cum residue upgradation
Mumbai refinery expansion
Barmer Refinery, Rajasthan
Vijaywada-Dharmapuri product pipeline
Hassan-Cherlapally LPG pipeline
Barmer-Palanpur product pipeline

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 11: Expected completion timeline of ongoing projects:

Mumbai Refinery expansion	CY21
Vizag refinery modernisation	CY21
Residue upgradation facility (Vizag)	CY22
Barmer Refinery, Rajasthan	CY23

Source: Company, Nirmal Bang Institutional Equities Research

Capex:

The management has guided for a standalone capex of Rs115bn for FY21 vs Rs155bn incurred last year. The company has already incurred capex of Rs18.5bn in April-June this year.

Exhibit 12: Infrastructure added in 1QFY21:

Nos.	Additions	Total end 1QFY20
Retail outlets	231	16707
CNG facility (Own and JV)	28	499
LPG distributorship	90	6129

Source: Company, Nirmal Bang Institutional Equities Research

Sharp fall in HPCL standalone gross debt in 1QFY21

- Gross debt decreased from Rs460bn in March'20 to Rs360bn by the end of June'20 and Rs310bn by July'20 based on reduced inventories and overall reduction in working capital
- Gross debt as of the end of June'20 stood at Rs260bn in long term loans and Rs100bn in short term loans
- Subsidy receivables in June'20 at Rs47bn was down from Rs63bn in March'20

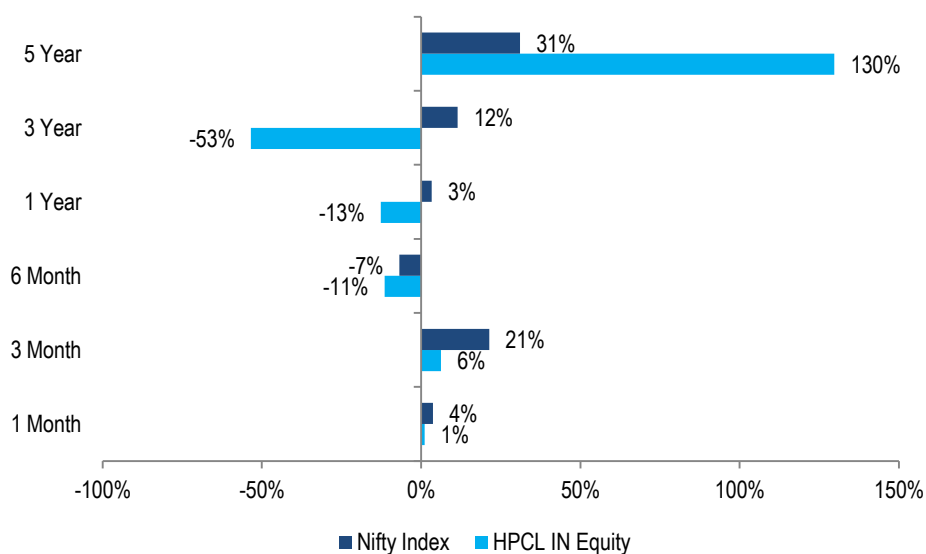
Exhibit 13: Trend in HPCL borrowings:

HPCL debt	March 2020	June 2020	July 2020
Rs bn	460	360	310

Source: Company, Nirmal Bang Institutional Equities Research

Consolidated PAT: 1QFY21 consolidated adjusted PAT came in at Rs22.53bn vs year ago PAT of Rs 8.77bn. This was after the share of losses in JVs/Assoc. of Rs5.58bn vs share of profit of Rs1bn in 1QFY20.

Exhibit 14: Price Performance



Source: Company, Nirmal Bang Institutional Equities Research

HPCL's operations and financials in charts

Exhibit 15: Key parameters

	1QFY20	1QFY21	Ch YoY %	4QFY20	Ch QoQ %
Average Gross Refining Margin US\$/bbl reported	0.75	0.04	-94.7	-1.23	-103.3
Refineries throughput Mn tonne	3.92	3.97	1.3	4.54	-12.6
Marketing Operations Mn tonne					
Domestic	9.82	7.24	-26.3	9.25	-21.7
Export	0.27	0.38	40.7	0.32	18.8
Total	10.09	7.62	-24.5	9.57	-20.4
Pipeline Throughput	5.34	4	-33.7	6	-38.1
Inventory Gain /(Loss) Rs Mn					
Refinery	-5160	2010	na	-25840	na
Marketing	-200	4320	na	-15290	na
Segment EBITDA Rs Mn (Proforma)					
A) Refining	-4,040	-5,347	32.4	-9,148	-41.5
B) Marketing	20,340	48,393	137.9	11,832	309.0

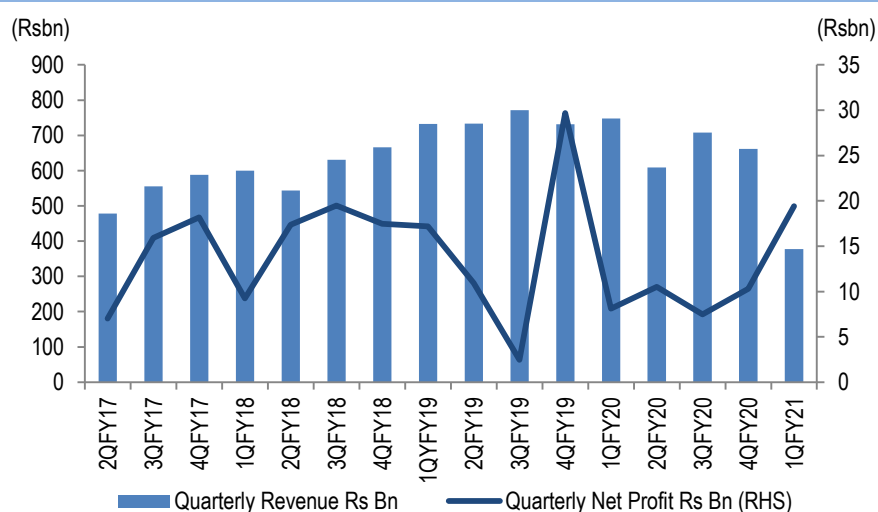
Source: Company, Nirmal Bang Institutional Equities Research, Note: Segment EBITDA includes inventory impact and excludes forex loss, Marketing EBITDA for 4QFY20/1FY21 is based on total EBITDA less refining EBITDA calculated using reported GRM

Exhibit 16: Standalone margin analysis

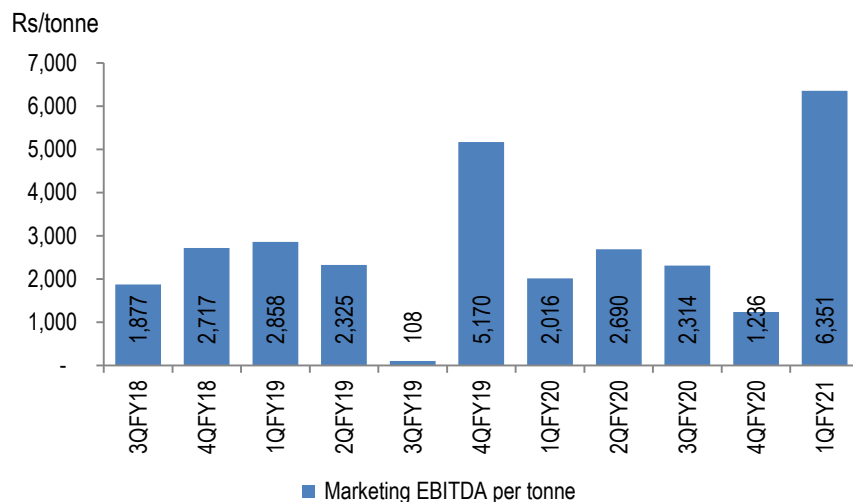
Margins %	1QFY20	1QFY21	YoY Ch bps	*4QFY20	QoQ Ch bps
Gross Margin	7.51	20.66	1,314	6.84	1,381
EBITDA	2.32	9.23	691	-1.07	1,029
EBIT	1.17	6.93	576	-2.29	922
Net MARGIN	1.14	5.14	400	1.56	358
Tax	34.55	32.04	-251	101.10	-6,906

Source: Company, Nirmal Bang Institutional Equities Research; *4QFY20 EBITDA margin as reported including fx loss of Rs8.74bn

Exhibit 17: Revenue and net profit trend



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 18: Marketing EBITDA per tonne trend


Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 19: Marketing sales volume trend

Mn tonne	4QFY18	FY18	1QFY19	2QFY19	3QFY19	4QFY19	FY19	1QFY20	2QFY20	3QFY20	4QFY20	FY20	1QFY21
LPG	1.6	6.11	1.52	1.645	1.58	1.8	6.55	1.49	1.83	1.87	1.83	7.02	1.70
MS	1.635	6.5	1.74	1.7	1.72	1.775	6.94	1.89	1.81	1.83	1.73	7.26	1.19
HSD	4.485	17.75	4.82	4.085	4.6	4.615	18.12	4.9	4.01	4.58	4.19	17.68	3.24
SKO	0.14	0.59	0.14	0.15	0.16	0.14	0.58	0.13	0.1	0.11	0.11	0.45	0.11
ATF	0.2	0.73	0.21	0.21	0.23	0.23	0.87	0.18	0.17	0.2	0.18	0.73	0.04
Others	1.33	4.51	1.21	1.03	1.15	1.47	4.87	1.23	1.03	1.17	1.21	4.64	0.96
Total Domestic	9.39	36.19	9.64	8.82	9.44	10.03	37.93	9.82	8.95	9.76	9.25	37.78	7.24
Exports	0.06	0.68	0.08	0.32	0.3	0.08	0.78	0.27	0.45	0.82	0.32	1.86	0.38
Total	9.45	36.87	9.72	9.14	9.74	10.11	38.71	10.09	9.40	10.58	9.57	39.64	7.62

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 20: Revival in returns

	FY18	FY19	FY20	FY21E	FY22E
EBITDA Rs Mn- LHS	110353	115671	56625	94460	131824
EPS Rs	47.36	43.90	23.89	31.56	48.97
RoE %	30.98	23.92	11.75	14.87	20.82

Source: Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 21: Free cash flows trend

Rs Mn	FY18	FY19	FY20	FY21E	FY22E
Cash from operations	1,10,370	85,542	54,693	1,46,443	1,16,409
Capex	67,029	1,12,667	1,37,941	76,674	59,720
Free cash flow	36,388	-28,296	-86,986	47,591	34,511

Source: Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 22: FCF yield and dividend yield

	FY18	FY19	FY20	FY21E	FY22E
FCF Yield %	11.18	-8.69	-26.72	14.62	10.60
Div yield %	7.13	4.21	4.56	4.68	5.62

Source: Bloomberg, Nirmal Bang Institutional Equities Research

Financials

Exhibit 23: Consolidated Income statement

Y/E March (Rsmn):	FY18	FY19	FY20	FY21E	FY22E
Net Revenue	21,95,098	27,54,734	26,90,915	23,74,937	28,15,865
y/y	17.08	25.49	-2.32	-11.74	18.57
Raw Material Expenses	19,44,872	24,80,371	24,67,861	20,92,107	24,86,263
RM/Sales %	88.6	90.0	91.7	88.1	88.3
Employee cost	28,926	29,728	32,241	33,853	35,545
Other expenses	1,10,947	1,28,965	1,34,189	1,54,517	1,62,233
EBITDA	1,10,353	1,15,671	56,625	94,460	1,31,824
y/y	0.08	4.82	-51.05	66.82	39.56
Depreciation	28,344	30,853	33,699	40,409	55,145
EBIT	82,009	84,818	22,926	54,051	76,679
Interest Expense	6,179	7,856	11,389	13,928	12,168
Other Income	12,055	14,133	16,816	16,816	16,816
PBT (adjusted)	87,885	91,095	28,354	56,939	81,327
Income Tax Expense	28,919	33,486	(12,644)	14,332	20,470
Associates inc/loss(+/-)	13,216	9,297	- 4,582	5,499	13,789
Consolidated Net Profit	72,182	66,906	36,417	48,106	74,646
EPS (Rs)	47.36	43.90	23.89	31.56	48.97
y/y	-12.36	- 7.31	-45.57	32.10	55.17

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 25: Consolidated Balance sheet

Y/E March (Rsmn)	FY18	FY19	FY20	FY21E	FY22E
Equity Share Capital	15,242	15,242	15,242	15,242	15,242
Reserves and Surplus	2,40,082	2,88,765	2,94,564	3,21,930	3,64,496
Networth	2,55,324	3,04,007	3,09,806	3,37,172	3,79,738
Non controlling interests	93,649	1,18,556	2,31,096	1,55,107	1,45,107
Long Term Borrowings	68,048	73,963	54,914	57,858	62,063
Deferred Tax Liabilities [Net]	1,157	2,118	2,802	2,802	2,802
Other long term liab.	1,11,704	1,41,809	1,62,761	2,21,809	2,24,309
Short Term Borrowings	1,24,169	1,44,516	-	-	-
Oth. Fin Liab(debt)	50,207	58,500	2,33,859	2,33,859	2,33,859
Trade Payables	1,57,800	1,90,534	1,14,688	1,62,431	1,91,178
Other curr liab	34,660	38,582	59,135	60,135	61,135
Total Capital And Liabilities	8,96,718	10,72,584	11,69,062	12,31,173	13,00,191
Total Asset plus WIP	4,28,393	5,08,473	6,61,215	6,97,480	7,02,055
Investments under equity method	73,066	87,157	88,208	1,27,202	1,66,197
Non-Current Investments	5,760	4,980	2,299	2,299	2,299
Other Non-Current Assets	24,169	37,323	41,161	41,161	41,161
Current Investments	49,994	50,838	53,449	53,449	53,449
Inventories	1,86,122	2,04,436	1,93,260	1,72,427	1,92,867
Trade Receivables	55,870	56,674	39,342	45,547	54,003
Cash And Cash Equivalents	1,215	1,987	2,048	3,527	80
Bank balances other than cash	11,681	198	184	184	184
Other financial assets	53,830	1,05,160	79,685	79,685	79,685
Other Current Assets	6,619	15,358	8,212	8,212	8,212
Total Assets	8,96,718	10,72,584	11,69,062	12,31,173	13,00,191

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 24: Cash flow

Y/E March (Rsmn)	FY18	FY19	FY20	FY21E	FY22E
PBT	87,885	91,095	18,325	56,939	81,327
Add depreciation	28,344	30,853	33,699	40,409	55,145
Other expenses	4,809	8,676	12,474	-2,889	-4,648
Change in W/C-inc/(dec)	-9,302	24,252	-7,425	-63,371	-850
Opg cashflow after W/C change	1,30,340	1,06,372	71,922	1,57,831	1,32,674
Income tax	19,970	20,830	17,229	11,388	16,265
Cashflow from Operations (A)	1,10,370	85,542	54,693	1,46,443	1,16,409
Capex	67,029	1,12,667	1,37,941	76,674	59,720
Other Investments	6,953	1,171	3,738	22,178	22,178
Free cash	36,388	-28,296	-86,986	47,591	34,511
Cashflow from Investing (B)	-73,982	-1,13,838	-1,41,679	-98,852	-81,898
Increase/(Decrease) in borrowings	-11,246	50,994	1,14,632	-16,942	-7,500
Dividends (including tax) paid	-27,939	-16,533	-17,251	-15,242	-18,291
Other Expenses	2,897	-5,392	-10,334	-13,928	-12,168
Cashflow from Financing (C)	-36,288	29,069	87,047	-46,111	-37,959
Ch in Cash and Cash equiv	101	773	60	1,480	-3,448
opg cash	1,115	1,215	1,987	2,048	3,527
cl oing cash	1,216	1,988	2,048	3,527	80

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 26: Key ratios

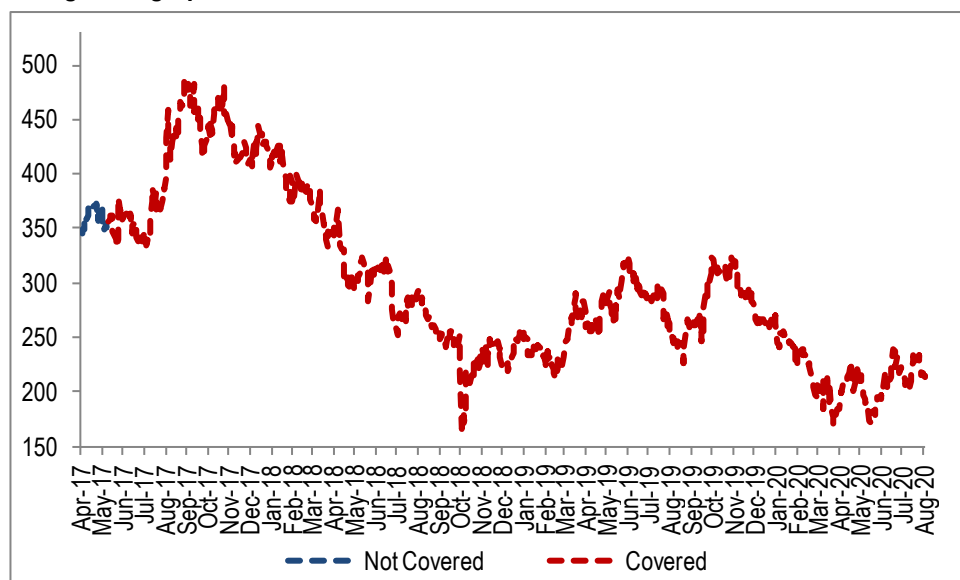
Y/E March (Rsmn)	FY18	FY19	FY20	FY21E	FY22E
Profitability & return ratios					
EBITDA margin (%)	5.0	4.2	2.1	4.0	4.7
EBIT margin (%)	3.7	3.1	0.9	2.3	2.7
Net profit margin (%)	3.3	2.4	1.0	2.0	2.7
RoE (%)	31.0	23.9	11.8	14.9	20.8
Pre-tax RoCE (%)	14.4	11.7	6.0	7.0	10.0
RoIC (%)	18.7	16.2	9.2	9.9	11.7
Working capital ratios					
Receivables (days)	8.0	7.5	8.0	7.0	7.0
Inventory (days)	31.0	25.9	27.5	26.5	25.0
Payables (days)	23.7	23.1	25.0	26.0	26.0
Cash conversion cycle	15.3	10.3	10.5	7.5	6.0
Leverage ratios					
Net debt (Rsmn)	2,66,632	3,51,858	3,38,178	3,19,757	3,15,704
Net Debt (cash)/Equity (X)	1.04	1.16	1.09	0.95	0.83
Net Debt/EBITDA	2.42	3.04	5.97	3.39	2.39
Valuation ratios					
EV/sales (x)	0.30	0.24	0.25	0.28	0.24
EV/EBITDA (x)	6.01	5.74	11.72	7.03	5.04
EV/FCF	18.24	-23.46	-7.63	13.95	19.23
P/E (x)	4.51	4.87	8.94	6.77	4.36
P/BV (x)	1.28	1.07	1.05	0.97	0.86
FCF Yield (%)	11.18	-8.69	-26.72	14.62	10.60
Dividend Yield (%)	7.13	4.21	4.56	4.68	5.62
Per share ratios					
EPS	47.36	43.90	23.89	31.56	48.97
Cash EPS	65.95	64.14	46.00	58.07	85.15
BVPS	167.51	199.45	203.26	221.21	249.14
DPS	15.23	9.00	9.75	10.00	12.00

Source: Company, Nirmal Bang Institutional Equities Research

Rating track

Date	Rating	Market price	Target price (Rs)
12 May 2017	Sell	567	482
29 May 2017	Sell	567	482
7 August 2017	Sell	432	321
10 November 2017	Sell	431	321
12 February 2018	Sell	393	358
23 May 2018	Sell	312	272
9 August 2018	Sell	282	249
2 November 2018	Under Review	229	-
6 February 2019	Sell	225	208
21 May 2019	Sell	294	208
8 August 2019	Sell	244	195
8 November 2019	Sell	310	245
6 February 2020	Accumulate	237	245
7 April 2020	Buy	200	353
7 May 2020	Buy	203	353
18 June 2020	Buy	214	343
10 August 2020	Buy	214	343

Rating track graph



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Stock Ratings Absolute Returns

BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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