

# Hindustan Petroleum Corporation

18 June 2020

Reuters: HPCL.NS; Bloomberg: HPCL IN

## Management believes worst is over

We maintain Buy on HPCL with a target price (TP) of Rs343 (+60.3% to CMP), which we have arrived at based on 7x PE on our reduced FY22E EPS (based on past average). This follows our earnings revision - cutting FY21E/FY22E earnings by 54.5%/21.9% post the 4QFY20 results call with HPCL management. The standalone 4QFY20 results were a beat vs. our estimates - adjusted PAT of Rs10.3bn vs our estimate of loss at Rs27mn. The beat was due to a steep tax write back of Rs15.48bn. The reported PAT came in at Rs268mn after exceptional loss of Rs10.03bn attributed to the impact of lockdown on inventory valuation. Reported GRM came in at minus US\$0.123/bbl, including refining inventory loss of Rs25.84bn vs. NBIE estimate of minus US\$2.8/bbl, including inventory loss of Rs5.74bn. The 1QFY21 outlook for HPCL is subdued due to the hit on volume and the weak refining margins in the aftermath of the lockdown to fight COVID 19. This is compounded by the collapse in retail margins in May after OMCs had to absorb an excise hike of Rs10-13/litre in MS and HSD coupled with the recent rally of nearly 100% in global oil prices. In the medium term, we are bullish on OMCs as (i) Sub-US\$40/bbl oil prices are +Ve for retail margins, which the management hopes to improve over time (ii) GRMs could also eventually recover as current low margins are unsustainable (iii) A surplus in OPEC could widen the light-heavy oil price spread (+Ve for complex refiners) that could get further tailwind as the output of US shale oil (light sweet grade) will see a secular decline due to weak oil prices and financing for shale projects drying up. We also see a potential rerating in HPCL post completion of the bottom upgradation project in Vizag (slated for FY22) based on management guidance on GRM upside of US\$6-8 - implying a potential upside of Rs12.98/Rs59.43/sh in HPCL stock. Healthy bidding to the government's invitation for expression of interest (due July 31, 2020) for the BPCL stake sale could be an added near term tailwind.

**4QFY20 adjusted standalone PAT of Rs10.3bn vs Rs29.70bn in corresponding quarter last year:** Net revenue came in 17.6% above NBIE estimate but 2.6% lower YoY at Rs661.55bn. At gross contribution and EBITDA levels, reported numbers were below our estimates due to higher forex loss of Rs9.75bn vs our estimate of Rs5.74bn, miss on sales volume and higher other expenditure (due to provisions on NCD investments of Rs2.7bn made by HPCL's retirement and medical trust in ILFS). Reported GRMs came in lower at minus US\$1.23/bbl, including refining inventory loss at US\$10.7bbl, implying core GRM at US\$9.7/bbl.

**4QFY20 refining throughput** was down a tad from 4.6mn tonne to 4.54mn tonne. Sales volume was down 5.34% YoY at 9.57mn tonne due to the impact of the COVID-19 related lockdown towards the end of 4QFY20.

**Impact on 4QFY20 EBITDA and PBT YoY:** The standalone results showed a decline in gross margins by 680bps to 6.84%. EBITDA came in as a loss of Rs7.07bn vs profit of Rs51.93bn a year ago. The company had adjusted pre-tax loss of Rs14.31bn, excluding exceptional inventory loss of Rs4.11bn vs PBT of Rs46.73bn a year ago. Other expenses increased by 31.2% YoY due to steep forex loss of Rs9.75bn vs gain of Rs2.5bn a year ago.

**Consolidated adjusted PAT of Rs10.23bn for 4QFY20 vs PAT of Rs29.7bn a year ago:** Consolidated adjusted PAT for FY20 stood at Rs36.4bn. The FY20 share of earnings from its associates was a loss of Rs4.58bn vs profit of Rs9.3bnYoY. The loss in JVs is due to the huge losses in MRPL and JV HMEI (reported a loss of Rs660mn for FY20).

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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)	326.3/4.3
52 Wk H / L (Rs)	329/150
Daily Vol. (3M NSE Avg.)	7,699,531

### Price Performance (%)

	1-M	6-M	1-Y
HPCL	13.2	(19.2)	(27.3)
Nifty Index	8.1	(18.8)	(15.3)

Source: Bloomberg

Y/E March (Rsmn)	4QFY19	4QFY20	Ch YoY %	3QFY20	Ch QoQ %	4QFY20E	Var. (%)
<b>Net sales</b>	6,79,539	6,61,549	-2.6	7,07,496	-6.5	5,62,530	17.6
Cost of goods	5,86,802	6,16,297	5.0	6,46,085	-4.6	5,14,769	19.7
Contribution	92,737	45,252	-51.2	61,411	-26.3	47,761	-5.3
Employee benefits expenses	7,307	8,382	14.7	7,681	9.1	7,681	9.1
Other expenses	33,499	43,936	31.2	35,060	25.3	35,060	25.3
<b>EBITDA</b>	51,931	-7,066	-113.6	18,669	-137.8	5,019	-240.8
<b>EBITDAM (%)</b>	7.64	-1.07	-871.0	2.64	-370.7	0.89	-196.0
<b>Depreciation</b>	8,285	8,114	-2.1	8,659	-6.3	8,261	-1.8
Other income	4,956	4,241	-14.4	4,022	5.4	5,840	-27.4
Interest expenses	1,872	3,374	80.3	2,524	33.7	3,024	11.6
Profit on foreign currency transaction	-	-	-	-	-	-	-
<b>PBT before exceptional Items</b>	<b>46,731</b>	<b>-14,313</b>	<b>-130.6</b>	<b>11,508</b>	<b>-224.4</b>	<b>-425</b>	<b>3,265.7</b>
Exceptional Items	-	-10,029	-	-	-	-	-
PBT	46,731	-24,343	-152.1	11,508	-311.5	-425	5,624.0
Reported Tax	17,032	-24,611	-244.5	4,036	-709.7	-149	16,434.4
<b>Consolidated PAT reported</b>	<b>29,699</b>	<b>268</b>	<b>-99.1</b>	<b>7,472</b>	<b>-96.4</b>	<b>-276</b>	<b>-197.0</b>
<b>Consolidated adjusted PAT</b>	<b>29,699</b>	<b>10,297</b>	<b>-65.3</b>	<b>7,472</b>	<b>37.8</b>	<b>-276</b>	<b>-3,825.2</b>
<b>NPM (%)</b>	<b>4.37</b>	<b>1.56</b>	<b>-281.4</b>	<b>1.06</b>	<b>50.0</b>	<b>-0.05</b>	<b>160.6</b>

Source: Company, Nirmal Bang Institutional Equities Research

Please refer to the disclaimer towards the end of the document.

**Exhibit 1: 4QFY20 result vs NIBE and Consensus estimates**

Rs Bn	4QFY20E	4QFY20A	Var %	Bloomberg Consensus	Var %
Net Revenue	562.5	661.5	17.6	594.8	11.2
EBITDA	5.0	(7.1)	(240.8)	3.9	(280.5)
PAT	(0.3)	10.3	(3,825.2)	(2.6)	(494.5)

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

**Rating Rationale:**

We have cut earnings for FY21E-FY22E post 4QFY20 results concall. We have reduced our TP from Rs353 to Rs343 based on FY22E PE of 7x (based on historical average) vs. our old PE of 5.6x. 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 - **we see the indicated GRM upside of US\$6-8, implying a potential upside of Rs12.98/Rs59.43/sh in HPCL stock based on preliminary DCF based estimate.**

Other driver for the stock is likely to be expectations of improving retail margins under soft oil prices and steady refining earnings.

**We maintain Buy rating based on the following:**

- The 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.
- Current valuation on 12m trailing PE on FY20 earnings is at 9x, which compares with the average reading of 8.3x for this measure over FY10-19.

**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)	<b>8.22</b>	<b>7.61</b>	<b>10.56</b>	<b>10.52</b>	<b>6.05</b>	<b>8.05</b>	<b>7.14</b>	<b>8.60</b>	<b>8.25</b>
Forward PE (x)	<b>6.95</b>	<b>12.85</b>	<b>10.64</b>	<b>5.49</b>	<b>3.84</b>	<b>5.91</b>	<b>4.28</b>	<b>8.40</b>	<b>8.70</b>

Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 3: HPCL Earnings Revision**

Rs Mn	Old estimates		Revised estimates		Ch in estimates %	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
GRM US\$/bbl	2.43	3.43	2.53	4.53	4.13	32.10
Retail margins Rs/lit	5.25	3.5	3.50	3.50	-33.33	0.00
Refining vol mn tonnes	15.83	21.3	17.08	20.17	7.92	-5.32
Sales volume mn tonnes	39.82	41.17	36.24	38.90	-8.98	-5.52
Revenue	25,63,872	29,02,547	23,74,937	28,15,865	-7.37	-2.99
EBITDA	1,95,028	1,86,513	94,460	1,31,824	-51.57	-29.32
PAT	1,05,926	92,180	42,608	60,857	-59.78	-33.98
EPS	69.37	62.68	31.56	48.97	-54.50	-21.86
<b>TP</b>	<b>353</b>		<b>343</b>		<b>-2.83</b>	

Source: Nirmal Bang Institutional Equities Research

**Key changes in assumptions:**

- Reduced the refining throughput/sales assumptions for FY21 to build in 1Q lockdown impact and some spill-over for the remaining 9months in FY21.
- We have also cut the benefit of Mumbai/Vizag expansion in refining throughput as these are likely to be delayed from end CY20 to mid-CY21.
- Cut retail margin from Rs5.25 to Rs3.5/lit for FY21 while it is unchanged for FY22.
- Reduced tax rate from 34.3% to 25.2% - in line with company guidance.

**Exhibit 4: NBIE vs. Bloomberg consensus estimates for HPCL**

	NBIE est.			Bloomberg Consensus		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
EPS	23.89	29.17	48.06	21.24	37.56	44.87

Source: Nirmal Bang Institutional Equities Research, Bloomberg

**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	23,71,269	28,16,594
EBITDA	1,10,353	1,15,671	56,625	90,792	1,32,553
Consolidated Net Profit Adj	72,182	66,906	36,417	44,464	73,248
EPS (Rs)	47.36	43.90	23.89	29.17	48.06
EPS gr (%)	-12.4	-7.3	-45.6	22.1	64.7
EBITDA Margin (%)	5.0	4.2	2.1	3.8	4.7
P/E	6.6	7.2	13.2	10.8	6.5
EV/EBITDA	7.4	7.1	14.4	9.0	6.2
P/BV	1.88	1.58	1.55	1.41	1.25
Dividend Yield (%)	4.84	2.86	2.14	2.03	3.10
Net Debt (cash)/Equity (X)	2,66,632	3,51,858	3,38,178	3,34,807	3,19,351
RoCE (%)	14.4	11.7	6.0	6.2	9.0
RoE (%)	30.98	23.92	11.75	13.71	20.27

Source: Company, Nirmal Bang Institutional Equities Research

**HPCL conference call highlights:**
**Summary conclusions**
**Refining operations and marketing**

- HPCL's core GRM is likely to sustain at US\$4-4.5/bbl - Management expects inventory gains to offset the lockdown impact on reduced volume in 1QFY21.
- Product spreads have improved – with that on diesel now at SU\$6-7/bbl.
- Retail prices are now being adjusted on a regular basis to improve margins, without causing too much volatility and hardship for consumers. The current pump prices have recovered margins on BS VI fuel also.
- 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 by next month.
- The company set up 1194 new outlets in FY20; Total no of outlets at 16,476 nos
- The company expects the inventory impact to get normalized in the coming quarters.

- The company is also **implementing IOT and digital initiatives** in retail and refining to improve cost savings and increase sales

### **Refinery Utilisation and Petroleum demand**

- Refinery utilisation is near 100% at Vizag and 80% at Mumbai. This is likely to reach 90-100% by 2QFY21.
- MS/HSD volumes were at 40%/60% of normal demand in April/May and now at 80% of normal levels. Management expects parity with normal demand by 2QFY21.

### **Inventory valuation impact:**

- The aggregate inventory loss of Rs41.13bn includes exceptional loss of Rs10.03bn on account of writing down the inventory values of crude and products due to the COVID 19 impact.

### **Refining share of inventory loss/gain:**

- 4QFY20 loss of Rs25.84bn vs gain of Rs740mn a year ago.
- FY20 loss of Rs29.6bn vs gain of Rs7.41bn in FY19.

### **Marketing share of inventory loss/gain:**

- 4QFY20: Inventory loss of Rs15.29bn vs a gain of Rs2.69bn a year ago.
- For FY20 it came in at a loss of Rs12.93bn vs a gain of Rs6.25bn in FY19.

The inventory loss was mainly due to the abnormally high level of inventory in March and steep fall in oil and product prices.

### **Standalone segment EBITDA earnings for FY20: Refining had a loss of Rs18.15bn, Marketing EBITDA came in at Rs73bn.**

- Marketing EBITDA includes retail-40%, pipeline/lubes earnings 10-15% each and the rest others. This implies EBITDA for retail/pipeline/lubes at Rs29.2bn/Rs7.3bn/Rs11bn.

### **Project activities have resumed at all sites**

- All projects are now back in execution mode after the interruption due to the lockdown although there is still some shortage of workers. Mumbai and Vizag refinery expansion completion date deferred to mid-CY21 vs. target of CY20.
- Vizag bottoms upgradation project to yield upside of US\$6-8 in GRMs once it is fully operational expected by FY23
- **Debt likely to decline sharply by end 1QFY21**
- Standalone gross debt increased due to capex and working capital requirements to pay for crude purchases in advance. Management expects this to reduce from Rs460bn to Rs320bn by end June 20 based on reduced inventories and overall reduction in working capital.
- Management has adopted the lower tax regime of 25.17% as HPCL has used up all its MAT credit.

### **FY21 capex estimated at Rs120bn**

This includes Refining/Marketing Rs75bn/Rs50bn and equity investments in joint ventures.

The company identifies IRR projects and essential projects and works on a threshold IRR/margin.

**Lease accounting** impact for FY20 reported at a hit of Rs1.24bn on PBT - Depreciation and Interest expense increased by Rs1.7bn and Rs2.02bn on leased assets while other expense was down Rs2.48bn on reversal of lease rentals.

**Consolidated PAT:** 4QFY20 consolidated adjusted PAT came in at Rs9.75bn vs year ago PAT of Rs33.40bn. This was after the share of losses in JVs/Assoc. of Rs5.45bn vs share of profit of Rs3.70bn in 4QFY19.

**HPCL's financial in charts**
**Exhibit 6: Key parameters**

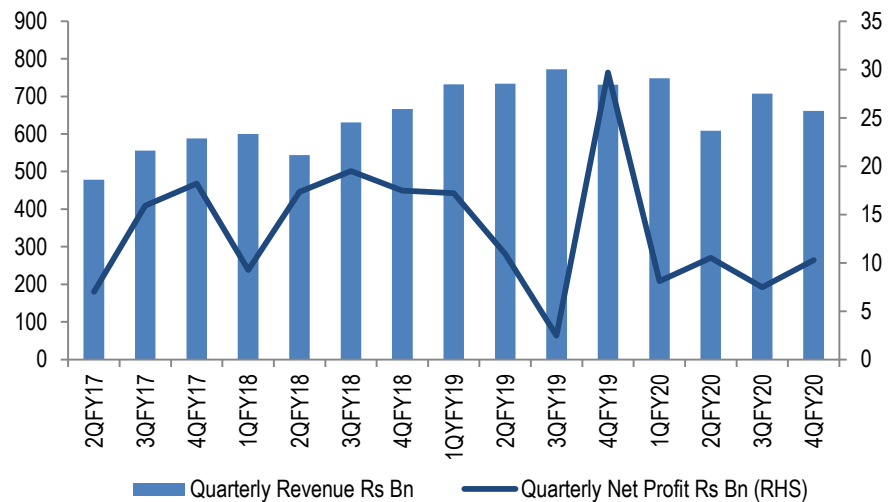
(Rs Mn)	4QFY19	4QFY20	Ch YoY %	3QFY20	Ch QoQ %
Average Gross Refining Margin US\$/bbl reported	4.51	-1.23	-127.3	1.79	-168.7
Refineries throughput Mn tonne	4.60	4.54	-1.3	4.16	9.1
<b>Marketing Operations Mn tonne</b>					-
Domestic	10.03	9.25	-7.8	9.76	-5.2
Export	0.08	0.32	300.0	0.82	-61.0
Total	10.11	9.57	-5.3	10.58	-9.5
<b>Pipeline Throughput Mn tonne</b>	5.61	6	2.0	5	12.4
<b>Inventory Gain /(Loss) Rs Mn</b>					
Refinery	5720	-25840.0	-551.7	740.0	-3591.9
Marketing	3440	-15290.0	-544.5	2690.0	-668.4
<b>EBITDA Contribution Rs Mn</b>					
A) Refining	6,500	-18,150	-379.2	-1,410	1187.2
B) Marketing	52,270	73,000	39.7	24,480	198.2

Source: Company, Nirmal Bang Institutional Equities Research, Note: Reported segment EBITDA incl. other income

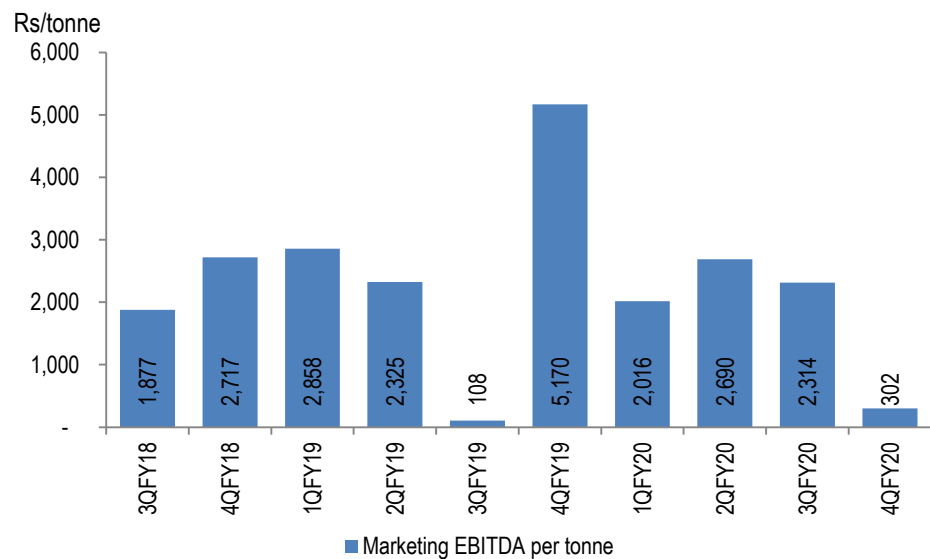
**Exhibit 7: Standalone margin analysis**

Margins %	4QFY19	4QFY20	YoY Ch bps	3QFY20	QoQ Ch bps
Gross Margin	13.65	6.84	-680.67	8.68	-183.97
EBITDA	7.64	-1.07	-871.02	2.64	-370.68
EBIT	6.42	-2.29	-871.75	1.41	-370.95
Net MARGIN	4.37	1.56	-281.39	1.06	50.04
Tax	36.45	101.10	6,465.45	35.07	6,602.74

Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 8: Revenue and net profit trend**


Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 9: Marketing EBITDA per tonne trend**


Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 10: Marketing sales volume trend**

Mntonne	3QFY18	4QFY18	FY18	1QFY19	2QFY19	3QFY19	4QFY19	FY19	1QFY20	2QFY20	3QFY20	4QFY20	FY20
LPG	1.58	1.6	6.11	1.52	1.645	1.58	1.8	6.55	1.49	1.83	1.87	1.83	7.02
MS	1.615	1.635	6.5	1.74	1.7	1.72	1.775	6.94	1.89	1.81	1.83	1.73	7.26
HSD	4.575	4.485	17.75	4.82	4.085	4.6	4.615	18.12	4.9	4.01	4.58	4.19	17.68
SKO	0.14	0.14	0.59	0.14	0.15	0.16	0.14	0.58	0.13	0.1	0.11	0.11	0.45
ATF	0.18	0.2	0.73	0.21	0.21	0.23	0.23	0.87	0.18	0.17	0.2	0.18	0.73
Others	1.14	1.33	4.51	1.21	1.03	1.15	1.47	4.87	1.23	1.03	1.17	1.21	4.64
<b>Total Domestic</b>	<b>9.23</b>	<b>9.39</b>	<b>36.19</b>	<b>9.64</b>	<b>8.82</b>	<b>9.44</b>	<b>10.03</b>	<b>37.93</b>	<b>9.82</b>	<b>8.95</b>	<b>9.76</b>	<b>9.25</b>	<b>37.78</b>
Exports	0.21	0.06	0.68	0.08	0.32	0.3	0.08	0.78	0.27	0.45	0.82	0.32	1.86
<b>Total</b>	<b>9.44</b>	<b>9.45</b>	<b>36.87</b>	<b>9.72</b>	<b>9.14</b>	<b>9.74</b>	<b>10.11</b>	<b>38.71</b>	<b>10.09</b>	<b>9.40</b>	<b>10.58</b>	<b>9.57</b>	<b>39.64</b>

Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 11: Revival in returns**

	FY18	FY19	FY20E	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 12: Free cash flows trend**

Rs Mn	FY18	FY19	FY20E	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 13: FCF yield and dividend yield**

	FY18	FY19	FY20E	FY21E	FY22E
FCF Yield %	11.10	-8.63	-26.54	14.52	10.53
Div yield %	7.08	4.18	4.53	4.65	5.58

Source: Bloomberg, Nirmal Bang Institutional Equities Research

**Exhibit 14: HPCL Standalone Quarterly result analysis**

Result Analysis	4QFY19	4QFY20	Ch YoY	FY19	FY20	Ch YoY
Gross Sales	7,31,658	7,15,546	-2.2	29,66,468	28,74,073	-3.1
less Excise Duty	52,119	53,996	3.6	2,17,316	1,86,505	-14.2
Net Revenue	6,79,539	6,61,549	-2.6	27,49,152	26,87,567	-2.2
Raw material cost	1,57,708	1,47,762	-6.3	6,96,157	5,97,345	-14.2
Changes in Inventories	-34,177	-6,862	-79.9	-21,665	-4,185	-80.7
Purchases	4,63,271	4,75,398	2.6	18,05,269	18,72,051	3.7
COGS	5,86,802	6,16,297	5	24,79,761	24,65,211	-0.6
Contribution	92,737	45,252	-51.2	2,69,391	2,22,356	-17.5
Employee Benefits Expense	7,307	8,382	14.7	29,381	31,947	8.7
Other Expenses	33,499	43,936	31.2	1,14,050	1,39,177	22.0
Total Expenses	6,27,608	6,68,615	6.5	26,37,436	26,36,335	0.0
EBITDA	51,931	-7,066	-113.6	1,11,716	51,232	-54.1
Depreciation and Amortisation Expenses	8,285	8,114	-2.1	30,126	33,044	9.7
EBIT	43,647	-15,180	-134.8	81,590	18,188	-77.7
Other Income	4,956	4,241	-14.4	19,056	18,384	-3.5
Finance Costs	1,872	3,374	80.3	7,259	10,817	49.0
PBT (before except. and prior period adj)	46,731	-14,313	-130.6	93,387	25,755	-72.4
Exceptionals	-	-10,029	-	0	-10029.3	
PBT reported -X=P+E	46,731	-24,343	-152.1	93,387	15,726	-83.2
Current	14,101	-10,303	-173.1	27,277	1,670	-93.9
Deferred	2,727	1,174	-57	5,620	3,165	-43.7
Provisions written back	204	-15,481	-7,688.80	204	-15481.2	-7688.8
total tax -T	17,032	-24,611	-244.5	33,100	-10,647	-132.2
PAT reported-X-T+Y	29,699	268	-99.1	60,287	26,373	-56.3
Adjusted PAT	29,699	10,297	-65.3	60,287	36,402	-39.6
<b>Margins %</b>	<b>4QFY19</b>	<b>4QFY20</b>	<b>YoY Ch bps</b>	<b>FY19</b>	<b>FY20</b>	<b>YoY Ch bps</b>
Gross Margin	13.65	6.84	-680.67	9.80	8.27	-152.56
EBITDA	7.64	-1.07	-871.02	4.06	1.91	-215.74
EBIT	6.42	-2.29	-871.75	2.97	0.68	-229.11
Net MARGIN	4.37	1.56	-281.39	2.19	1.35	-83.85
Tax	36.45	101.10	6465.45	35.44	35.00	-44.41

Source: Company, Nirmal Bang Institutional Equities Research

**Financials**
**Exhibit 15: Consolidated Income statement**

Y/E March (Rsmn)	FY18	FY19	FY20	FY21E	FY22E
<b>Net Revenue</b>	<b>21,95,098</b>	<b>27,54,734</b>	<b>26,90,915</b>	<b>23,74,937</b>	<b>28,15,865</b>
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
<b>EBITDA</b>	<b>1,10,353</b>	<b>1,15,671</b>	<b>56,625</b>	<b>94,460</b>	<b>1,31,824</b>
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
<b>PBT (adjusted)</b>	<b>87,885</b>	<b>91,095</b>	<b>28,354</b>	<b>56,939</b>	<b>81,327</b>
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	<b>72,182</b>	<b>66,906</b>	<b>36,417</b>	<b>48,106</b>	<b>74,646</b>
EPS (Rs)	47.36	43.90	23.89	31.56	48.97
<b>y/y</b>	<b>-</b>	<b>-</b>	<b>- 45.57</b>	<b>32.10</b>	<b>55.17</b>

Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 17: 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 Liabdebt)	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
<b>Total Capital And Liabilities</b>	<b>8,96,718</b>	<b>10,72,584</b>	<b>11,69,062</b>	<b>12,31,173</b>	<b>13,00,191</b>
Total Asset plus WIP	4,28,393	5,08,473	6,61,215	6,97,480	7,02,055
Investments under equitymethod	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
<b>Total Assets</b>	<b>8,96,718</b>	<b>10,72,584</b>	<b>11,69,062</b>	<b>12,31,173</b>	<b>13,00,191</b>

Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 16: 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
<b>Cashflow from Operations (A)</b>	<b>1,10,370</b>	<b>85,542</b>	<b>54,693</b>	<b>1,46,443</b>	<b>1,16,409</b>
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
<b>Free cash</b>	<b>36,388</b>	<b>-28,296</b>	<b>-86,986</b>	<b>47,591</b>	<b>34,511</b>
<b>Cashflow from Investing (B)</b>	<b>-73,982</b>	<b>-1,13,838</b>	<b>-1,41,679</b>	<b>-98,852</b>	<b>-81,898</b>
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
<b>Cashflow from Financing (C)</b>	<b>-36,288</b>	<b>29,069</b>	<b>87,047</b>	<b>-46,111</b>	<b>-37,959</b>
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 18: Key ratios**

Y/E March (Rsmn)	FY18	FY19	FY20	FY21E	FY22E
<b>Profitability &amp; return ratios</b>					
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
<b>Working capital ratios</b>					
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
<b>Leverage ratios</b>					
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
<b>Valuation ratios</b>					
EV/sales (x)	0.30	0.24	0.25	0.28	0.24
EV/EBITDA (x)	6.03	5.76	11.76	7.05	5.05
EV/FCF	18.30	-23.53	-7.66	13.99	19.29
P/E (x)	4.54	4.90	9.00	6.81	4.39
P/BV (x)	1.28	1.08	1.06	0.97	0.86
FCF Yield (%)	11.10	-8.63	-26.54	14.52	10.53
Dividend Yield (%)	7.08	4.18	4.53	4.65	5.58
<b>Per share ratios</b>					
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

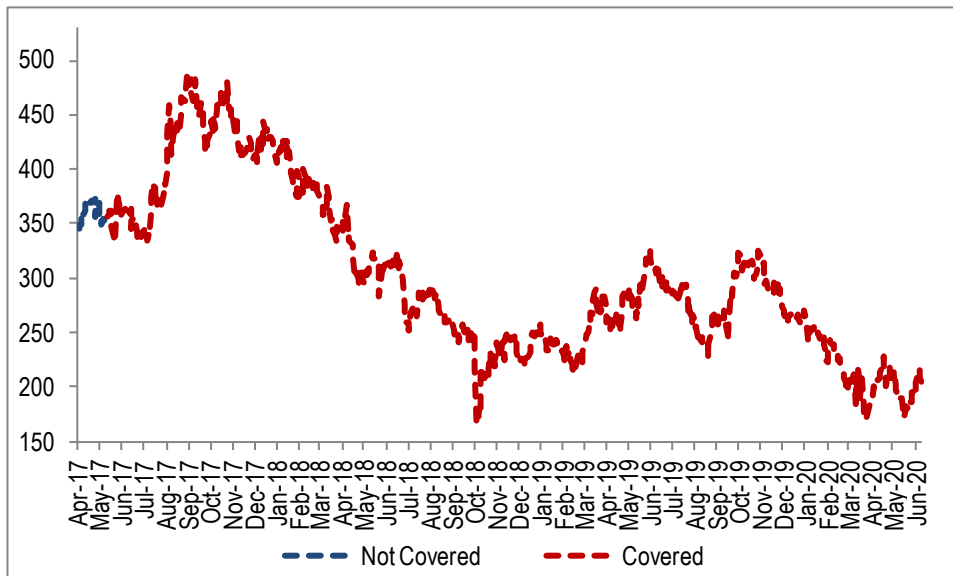
Source: Company, Nirmal Bang Institutional Equities Research



## Rating track

Date	Rating	Market price	Target price (Rs)
12 May 2017	Accumulate	738	717
16 August 2017	Accumulate	479	478
15 November 2017	Accumulate	493	489
12 February 2018	Accumulate	475	513
31 May 2018	Accumulate	400	436
9 August 2018	Accumulate	389	436
30 October 2018	Under Review	277	-
11 February 2019	Sell	338	300
21 May 2019	Sell	393	300
14 August 2019	Accumulate	343	343
11 November 2019	Accumulate	501	512
14 February 2020	Accumulate	477	534
7 April 2020	Buy	200	353
18 June 2020	Buy	214	343

## Rating track graph



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BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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