

HPCL (HPCL) - SELL

Q4FY26 Result Update

Current Market Price (CMP) Rs.390	Fair Value (FV) Rs.275
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Rationale:

- In FY26, with no retail price moderation, HPCL reported record profits.
- With sharply higher oil prices following the West Asia crisis & no hike in auto fuel prices so far, HPCL could report large losses, unless prices are sufficiently increased soon.
- OMCs absorb all the impact of crude prices, a weaker INR, & do not have much freedom to change retail prices, the earnings volatility is high.
- However, we believe that after a weak FY27E, OMCs will be allowed to make up in the coming years by having higher retail fuel margins.
- This will be similar to OMCs reporting strong earnings in FY24-26, after a very weak FY23 (HPCL reported losses) as oil prices rose after the Russia-Ukraine war.
- We roll forward valuations to Jun'28E & assign a higher EV/EBITDA multiple of 5.5x.
- Retain SELL with an FV of Rs275 (Rs235 earlier).

👍 Positives:

- EBITDA up 55% yoy & 28% qoq, sharp 88% ahead of our estimate and 2.3x consensus.
- The beat would be driven by high marketing margins and/or high adventitious gains due to sharply higher prices in March.
- HPCL's reported debt declined 2% sequentially (down 25% yoy).

👎 Negatives:

- Reported GRM of US\$14.3/bbl were weaker than our estimate of US\$18.5/bbl.
- LPG under-recoveries for Q4 was Rs1350 cr (Rs5200 cr for FY26).

(GRM: Gross Refining Margin, LPG: Liquefied Petroleum Gas, EBITDA: Earnings Before Interest, Tax, Depreciation and Amortization, EV: Enterprise Value, OMCs: Oil Marketing Companies, Bbl: Barrels)



The content of this document has been derived from KIE research report. Kotak's PCG Research has summarized the report (Research Team: shrikant.chouhan@kotak.com). Readers who wish to access the complete report are kindly requested to contact their respective Relationship Manager. Further, the recipient of this material should take their own professional advice before investing.

Holding Period: 12 months

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- ADD** – We expect the stock to deliver 5% - 15% returns over the next 12 months
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- NA** – **Not Available or Not Applicable.** The information is not available for display or is not applicable
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- NOTE** – Our target prices are with a 12-month perspective. Returns stated in the rating scale are our internal benchmark.

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