



# OIL TO CHEMICALS

# Oil Marketing Companies

## Benign crude to keep integrated margins healthy

During the past three quarters, (i) average crude oil prices declined by ~11% from ~USD75/bbl to ~USD 67/bbl, (ii) transportation fuel cracks improved by 15-37%, and (iii) retail fuel prices remained unchanged. These factors augured well for growth in integrated margins (exhibit 6) of OMCs, which resulted in improved profitability and cash flows. With crude oil prices further declining in the current quarter and gasoil product cracks strengthening, Gross Refining Margins (GRMs) have remained strong (exhibit 4). However, the strength in GRMs has kept the marketing margins under check as these two are negatively correlated. While, we have been cautious of GRMs remaining high and continue to believe that GRMs will decline in the longer run as and when global refining capacity increases, we have turned optimistic on the marketing margins improving in the near term.

Our interactions with MoPNG and senior management of OMCs suggest that the government does not intend to control the marketing margins being pocketed by OMCs despite crude oil prices remaining under pressure. As we expect GRMs to decline, marketing margins should improve, resulting in integrated margin remaining at healthy levels. Moreover, the recent reduction in global LPG prices and receipt of LPG under recovery dues provide a further breather to OMCs and strengthen their balance sheet. In addition, the petrochemical segment margin which have been compressed in the last two years should recover gradually in the long term. Hence, we upgrade IOCL, HPCL, and BPCL from REDUCE to BUY. Among the OMCs, we prefer HPCL as its earnings sensitivity to changes in marketing margins is the highest (exhibit 17).

- **Why we believe GRMs should come off in the long term:** China has been the global frontrunner in adoption of Electric Vehicles (EVs). This is evident from the fact that the total number of electric cars on the roads in China has increased at a whopping CAGR of ~68% from CY21 to CY23 (exhibit 1). This increasing EV adoption has impacted demand for gasoline and gasoil for fuel (exhibit 2). China has seen its gasoline and gasoil demand for fuel decline from 3.8/3.7mbpd recorded in CY21 to 3.6/3.6mbpd in CY24. This reduction of gasoil and gasoline demand is expected to continue as EV adoption is expected to remain strong. India too has seen a rise in EV adoption (exhibit 7). However, the pace of adoption is slower and gradual vis-à-vis China. Given the government's push for EV adoption, India will also observe demand growth for EV. We believe that this will lead to gasoline and gasoil demand falling in India, which is the largest petroleum product consumer globally. On the supply side, commissioning of major new refineries will add close to 0.76 million barrels per day of refining capacity globally by CY27 which is close to 0.5% of the current total global refining capacity (exhibit 20). Hence, we expect demand growth of gasoil and gasoline to be under pressure globally in the long run, which may eventually lead to lower transportation fuel product cracks and refining margins.
- **Petrochemical:** The Indian oil and gas companies are undergoing a massive capex cycle focused on adding petrochemical capacities over the coming few years. With an expected decline in demand of auto fuels in the longer term, oil refiners have no option but to focus on adding/expanding their petchem capacities and increasing petchem product output. The past data of two large Indian petrochemical players shows that it takes close to five years for one cycle to play out in the petrochemical industry (exhibit 27). We believe the current downcycle will play out a little longer than the previous one as petrochemical capacities in India are expected to commence operations until FY29. In the long term, however, Indian refiners should see improved profitability as the cycle picks up.

**Nilesh Ghuge**  
nilesh.ghuge@hdfcsec.com  
+91-22-6171-7342

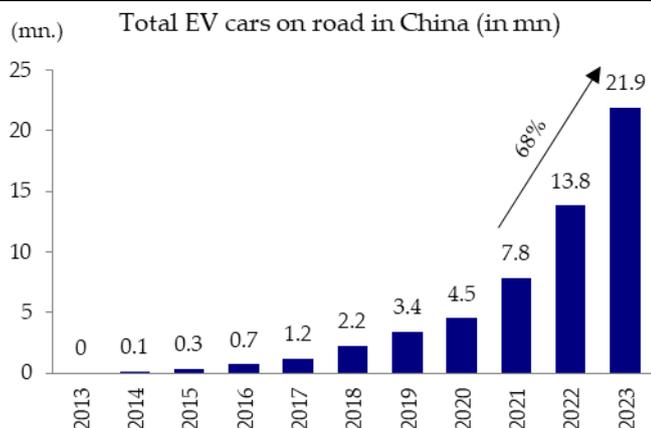
**Dhawal Doshi**  
dhawal.doshi@hdfcsec.com  
+91-22-6171-7361

**Prasad Vadnere**  
prasad.vadnere@hdfcsec.com  
+91-22-6171-7356

- **Why have we turned positive?** During the past three quarters, average crude oil prices declined from ~ USD75/bbl to ~USD 67/bbl (-11%) and retail fuel prices have remained unchanged since Q2FY25. These factors led to growth in integrated margins of OMCs. This current situation is unprecedented where retail auto fuel prices have remained unchanged despite reduction in crude oil prices. With average crude oil prices further declining in the current quarter and gasoil product cracks strengthening, gross refining margins (GRMs) have remained strong. While we have been cautious of GRMs remaining high and continue to believe that GRMs cannot sustain at these elevated levels, we turn optimistic about the marketing margins improving in the near term as our interactions with MoPNG and senior management of OMCs suggest that the government does not intend to control the marketing margins being pocketed by OMCs despite crude oil prices remaining under pressure. Hence, despite the fact that petchem business is expected to remain under pressure in the near term, we turn positive on the OMCs as we believe (i) unchanged retail fuel selling prices despite reduction in crude oil prices should result in integrated gross margins remaining healthy (with marketing margins improving) and (ii) valuations remain attractive. Hence, we upgrade IOCL, BPCL, and HPCL from Reduce to BUY with a TP of INR 190/455/579 per share respectively. Since HPCL's earnings sensitivity to changes in marketing margin is the highest among all OMCs, it is our top bet in this space.

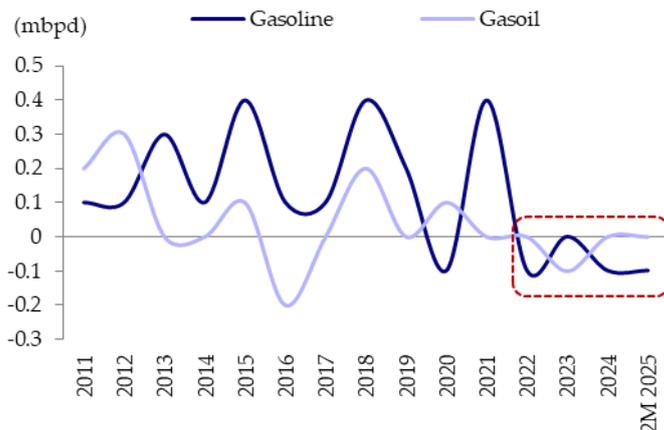
# Focus charts

**Exhibit 1: With surging EV cars volume in China...**



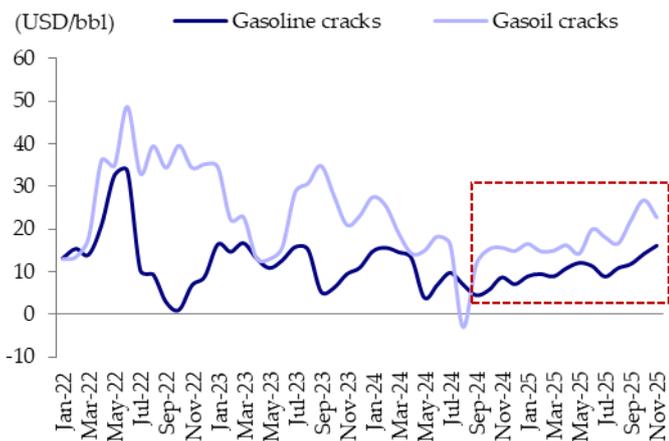
Source: IEA, HSIE Research

**Exhibit 2: ...YoY change in gasoil and gasoline fuel consumption in China has remained almost 0mbpd for two years...**



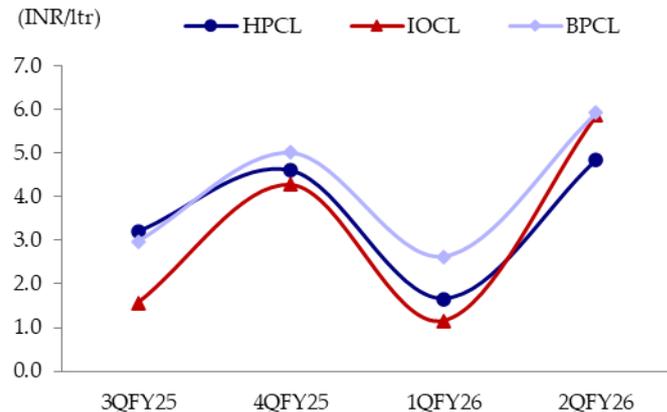
Source: IEA, HSIE Research

**Exhibit 3: ... keeping global gasoline and gasoil product cracks under pressure, though there are signs of revival.**



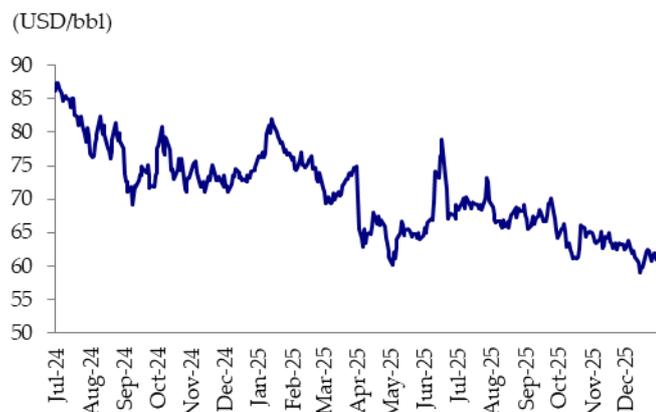
Source: Bloomberg, HSIE Research

**Exhibit 4: Improving global fuel cracks in the last few quarters led to increase in GRMs**



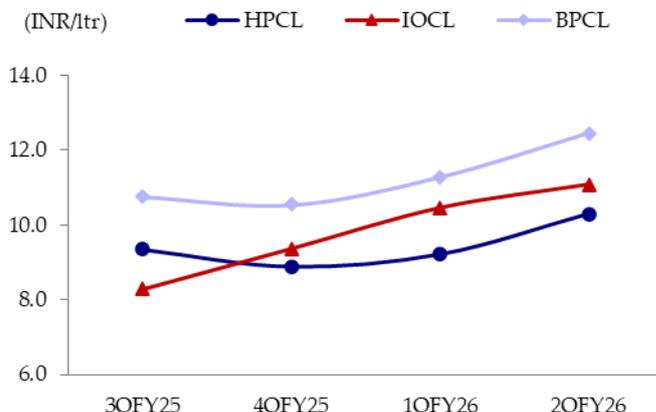
Source: Bloomberg, HSIE Research

**Exhibit 5: With Brent crude oil price declining...**



Source: Bloomberg, HSIE Research

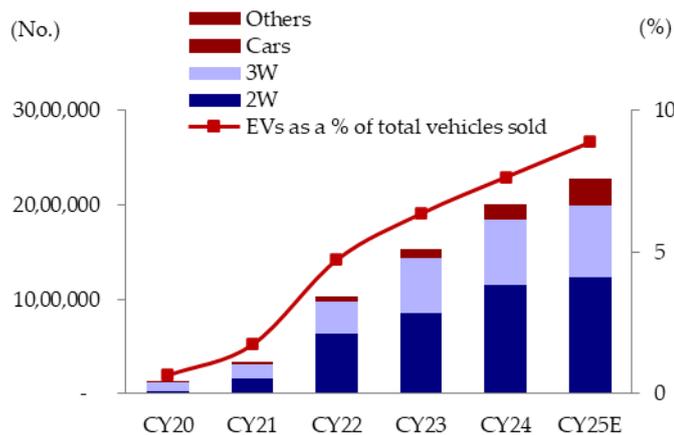
**Exhibit 6: ...and retail fuel prices remaining unchanged, integrated margins for the OMCs have remained healthy.**



Source: Company, HSIE Research

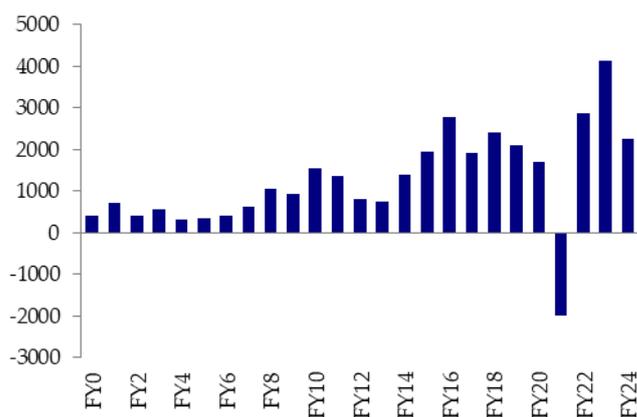
## OMCs: Sector Thematic

**Exhibit 7: EV's share in total vehicles sold in India is rising gradually; ~9% of vehicles sold are now EVs**



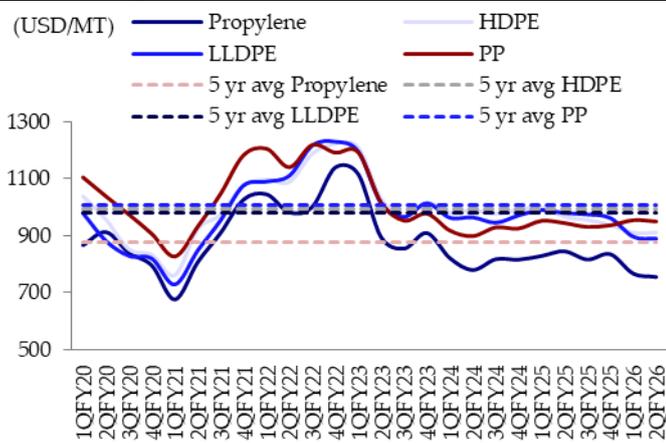
Source: Vahan Portal, HSIE Research

**Exhibit 8: FY24 (excl. COVID) saw the biggest decline in the rate of change in India's gasoline consumption**



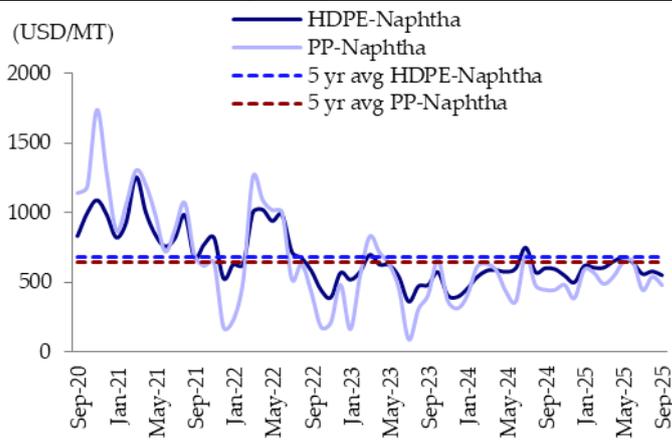
Source: PPAC, HSIE Research

**Exhibit 9: Prices of major petrochemical products have been under pressure since FY23**



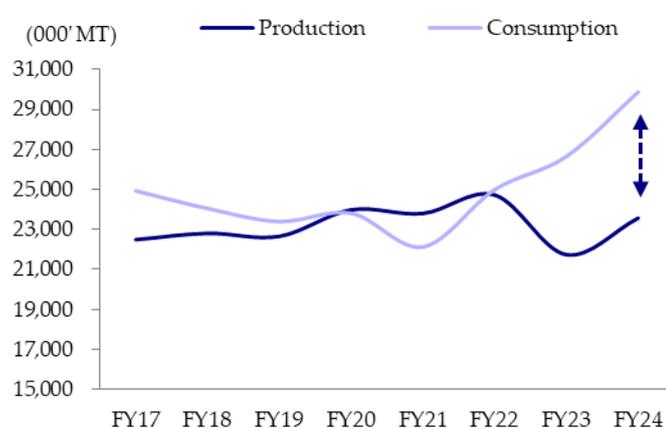
Source: Bloomberg, HSIE Research

**Exhibit 10: However, product spreads have increased from Q2FY24, though they remain subdued**



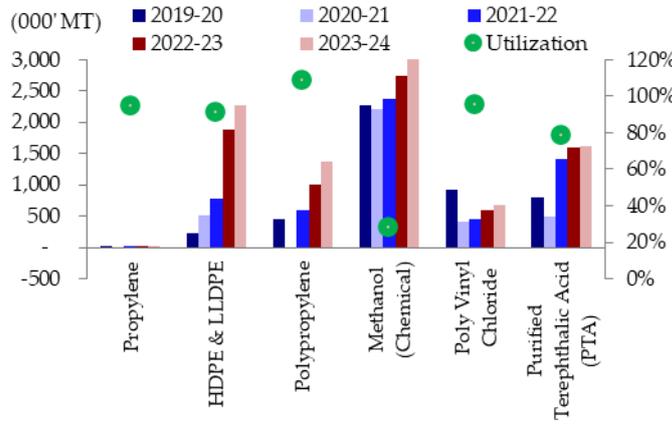
Source: Bloomberg, HSIE Research

**Exhibit 11: India's growing dependence on imports for major petchem products**



Source: GoI, HSIE Research

**Exhibit 12: Capacity utilization for a few major petchem products remains healthy**

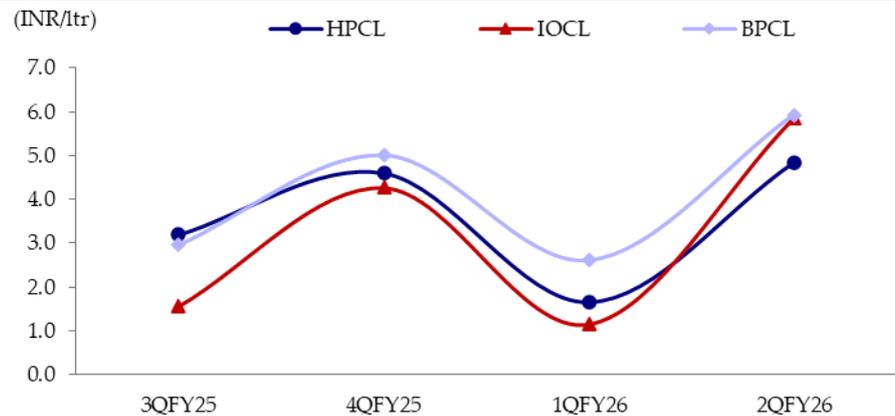


Source: GoI, HSIE Research

## Integrated margins remain unfazed

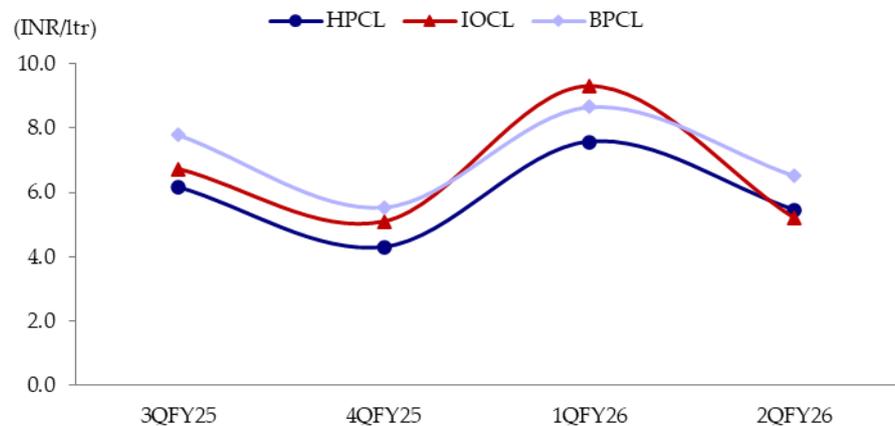
The current business situation is unprecedented where retail auto fuel prices remain unchanged despite fluctuations in crude oil prices. This led to negative correlation between marketing and refining margins of OMCs (-0.84 to -0.91) - weakness in one result in strengthening of the other. Given that Indian OMCs have higher marketing volumes than that of refining, the earnings of Indian OMCs are more responsive to changes in marketing margin than the refining margin. In the current volatile global environment, understanding integrated margin would provide a better sense of the earnings, in our opinion.

**Exhibit 13: Improvement in gross refining margins of Indian OMCs**



Source: Company, HSIE Research

**Exhibit 14: Steady marketing margins of OMCs**



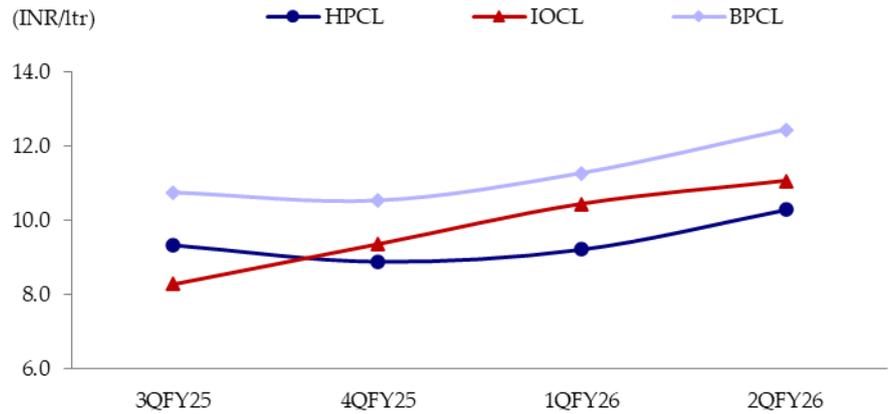
Source: Company, HSIE Research

**Exhibit 15: Brent crude oil prices declining from \$85 to \$65**



Source: Bloomberg, HSIE Research

**Exhibit 16: Integrated margins of OMCs improving**



Source: Company, HSIE Research

Further, we are of the opinion that global transportation fuel cracks should come off in the medium to long term, driven by refining capacity addition globally, sustained adoption of EVs and a global shift toward renewable energy. This should result in gross refining margins facing some pressure and marketing margins expanding (if the retail selling prices and taxation remain unchanged), which bodes well for Indian refiners. Amongst the OMCs, HPCL’s earnings remain the most sensitive to changes in marketing margins, followed by IOCL and BPCL.

**Exhibit 17: HPCL earnings sensitivity**

Particulars	FY27E Base case	INR1/ltr change in marketing margin	USD1/bbl change in refining margin
Refining throughput (MMTPA)	26.4		
Gross refining margins (USD/bbl)	7.7		8.7
Marketing volumes (MMTPA)	53.7		
Marketing margin (INR/ltr)	6.8	7.8	
EPS (INR)	93.9	116.4	99.9
<b>Change in EPS</b>		<b>24.0%</b>	<b>6.5%</b>

Source: HSIE Research

**Exhibit 18: IOCL earnings sensitivity**

Particulars	FY27E Base case	INR1/ltr change in marketing margin	USD1/bbl change in refining margin
Refining throughput (MMTPA)	73		
Gross refining margins (USD/bbl)	8.3		9.3
Marketing volumes (MMTPA)	92		
Marketing margin (INR/ltr)	7.1	8.1	
EPS (INR)	24.0	29.0	26.8
<b>Change in EPS</b>		<b>20.6%</b>	<b>11.4%</b>

Source: HSIE Research

**Exhibit 19: BPCL earnings sensitivity**

Particulars	FY26E Base case	INR1/ltr change in marketing margin	USD1/bbl change in refining margin
Refining throughput (MMTPA)	32.1		
Gross refining margins (USD/bbl)	8.1		9.1
Marketing volumes (MMTPA)	56.2		
Marketing margin (INR/ltr)	7.6	8.6	
EPS (INR)	57.1	68.5	62.2
<b>Change in EPS</b>		<b>19.9%</b>	<b>8.9%</b>

Source: HSIE Research

**Exhibit 20: Details of major upcoming new refining capacity (mbpd)**

Current global refining capacity	104.523
Expected capacity additions in 2026	
National Iranian Oil Refining and Distribution Company (South Adish, Siraf)	0.06
Hindustan Petroleum (Barmer)	0.18
<b>Total additions in 2026</b>	<b>0.24</b>
<b>% additions in 2026</b>	<b>0.2%</b>
Expected capacity additions in 2027	
Huajin Aramco (Liaoning)	0.30
Sinopec Yueyang (Hunan)	0.04
Chennai Petroleum (Nagapattinam)	0.18
<b>Total additions in 2027</b>	<b>0.52</b>
<b>% additions in 2027</b>	<b>0.5%</b>
<b>Capacity by the end of 2027</b>	<b>105.28</b>

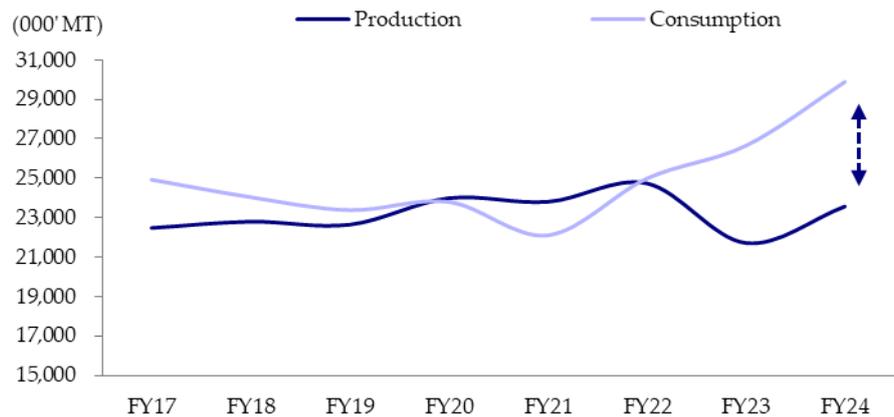
Source: EIA, World statistical review, HSIE Research

## Petchem industry

India's installed manufacturing capacity for major petchem products has observed very little growth from 27,127 TMT to 28,654 TMT (~3% CAGR) during FY22-FY24 (Exhibit 22). However, during the same period, consumption of these products grew at a CAGR of ~9% (Exhibit 23), leading to increased dependencies on imports (Exhibit 25).

Given that India's GDP growth is expected to remain steady, demand for these petchem products should continue rising, leading to either higher import dependencies or addition of production capacity.

**Exhibit 21: India's rising gap between petchem production and consumption**



Source: Source: Indian Ministry of Chemicals and Fertilizers, HSIE Research

**Exhibit 22: Installed capacity (000' MT) for major products saw increase in FY24**

Product name	2021-22	2022-23	2023-24
Propylene	5,190	5,190	6,181
HDPE & LLDPE	5,158	5,158	5,158
Polypropylene	4,934	4,934	4,934
Benzene	1,884	1,884	1,943
Toluene	288	288	288
Paraxylene (PX)	3,822	3,822	3,920
Methanol (Chemical)	474	474	660
Poly Vinyl Chloride	1,500	1,500	1,550
Purified Terephthalic Acid (PTA)	3,873	3,873	4,020
<b>Total</b>	<b>27,124</b>	<b>27,124</b>	<b>28,654</b>

Source: Indian Ministry of Chemicals and Fertilizers, HSIE Research

**Exhibit 23: Growth in production (000' MT)...**

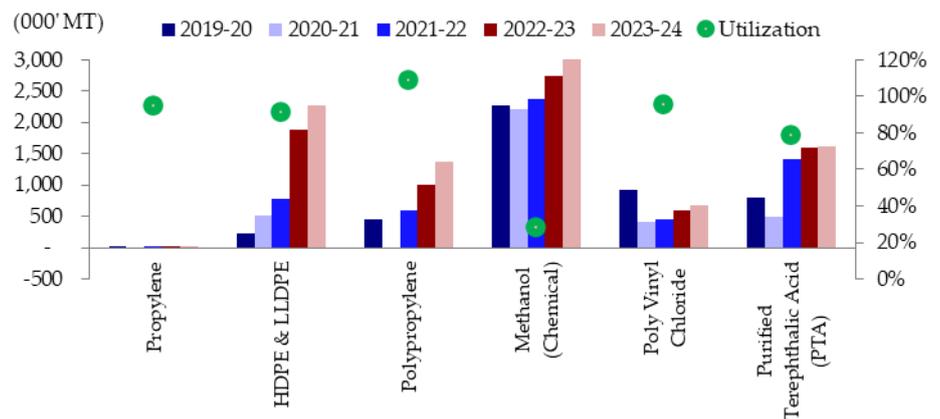
Product name	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
Propylene	4,425	4,458	4,640	4,888	5,216	5,635	5,064	5,834
HDPE	1,520	1,578	1,598	1,898	1,910	1,916	1,718	1,962
LLDPE	1,318	1,290	1,581	2,994	2,959	2,914	2,424	2,750
Polypropylene	4,253	4,350	4,779	4,983	4,919	5,241	4,774	5,371
Benzene	1,332	1,318	1,415	1,346	1,408	1,428	1,157	1,292
Toluene	127	107	141	140	114	116	113	132
Paraxylene (PX)	3,161	3,195	3,332	2,782	2,614	2,462	1,639	1,417
Methanol (Chemical)	177	261	272	176	234	168	69	183
Poly Vinyl Chloride	1,462	1,466	1,488	1,514	1,434	1,472	1,566	1,472
Purified Terephthalic Acid (PTA)	3,391	3,492	3,405	3,267	2,997	3,383	3,202	3,158
<b>Total</b>	<b>21,166</b>	<b>21,515</b>	<b>22,650</b>	<b>23,987</b>	<b>23,805</b>	<b>24,734</b>	<b>21,725</b>	<b>23,571</b>

Source: Indian Ministry of Chemicals and Fertilizers, HSIE Research

**Exhibit 24: ...does not match consumption growth (000' MT)...**

Product name	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
Propylene	4,415	4,446	4,608	4,889	5,204	5,665	5,073	5,840
HDPE & LLDPE	2,939	2,908	2,413	3,024	3,155	3,301	4,107	4,662
Polypropylene	4,460	4,737	4,916	5,438	4,912	5,831	6,123	6,741
Benzene	543	32	-214	-51	-81	-491	-284	-177
Toluene	514	517	566	597	698	598	682	697
Paraxylene (PX)	3,557	2,257	1,509	941	443	806	1,164	2,003
Methanol (Chemical)	1,802	2,034	2,248	2,449	2,446	2,547	2,844	3,200
Poly Vinyl Chloride	3,158	3,306	3,524	2,440	1,836	1,930	2,155	2,159
Purified Terephthalic Acid (PTA)	3,543	3,802	3,812	4,074	3,487	4,800	4,794	4,779
<b>Total</b>	<b>24,931</b>	<b>24,038</b>	<b>23,381</b>	<b>23,800</b>	<b>22,101</b>	<b>24,987</b>	<b>26,658</b>	<b>29,904</b>

Source: Indian Ministry of Chemicals and Fertilizers, HSIE Research

**Exhibit 25: ...leading to high-capacity utilization and rising net imports**

Source: Source: Indian Ministry of Chemicals and Fertilizers, HSIE Research

**Exhibit 26: Major upcoming petrochemical capacity in India v/s current net imports**

Product name	Net Imports in FY 24 (000 MT)	Est. Upcoming Capacity (000 MT)
HDPE & LLDPE	2,263	2,650
Polypropylene	1,370	4,230
Poly Vinyl Chloride	686	1,500
Purified Terephthalic Acid (PTA)	1,621	500
Paraxylene (PX)	585	340

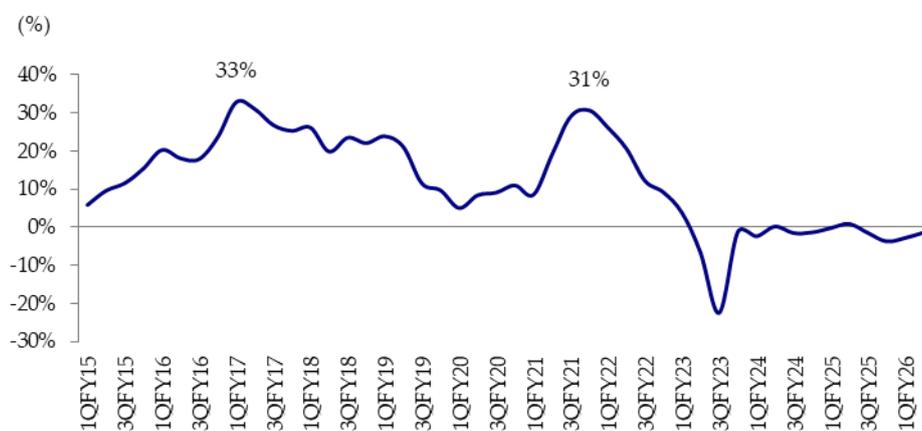
Source: Indian Ministry of Chemicals and Fertilizers, Companies, HSIE Research

Currently, India's production of major petrochemical products is 23.5 MMTPA and consumption is 29.9 MMTPA, resulting in import substitution opportunity of 6.4 MMTPA of petrochemical products. Given the fact that the growth in consumption of petrochemical products is closely linked with the economic growth of a country, we believe India's demand for petrochemical products will continue to grow in the long term on the back of strong economic growth.

Further, we also believe that despite huge petrochemical production capacity expected to come online by FY30, the future growth in India's demand for petrochemical production will surpass the total domestic production capacity resulting in domestic petrochemical industries operating at a high utilization level in the long term.

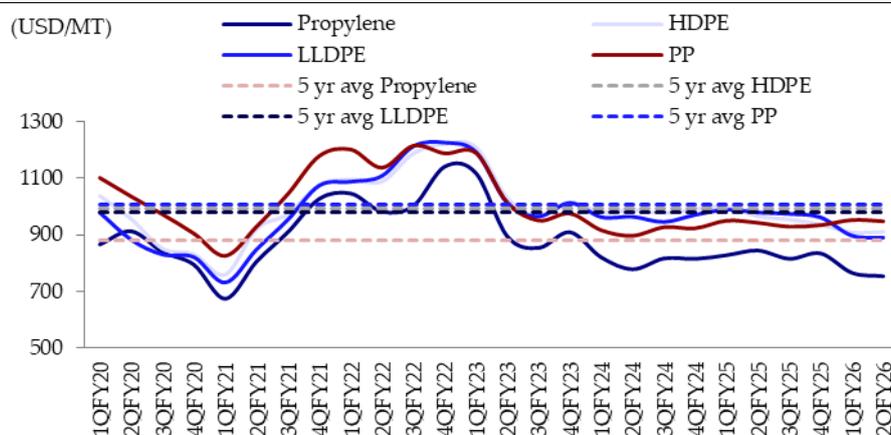
Previous performance of two large Indian petrochemical companies (GAIL and IOCL) suggest that it takes close to five years of time for one cycle to play out in this industry. In our opinion, the current downcycle will last longer than the previous cycle, as massive capacities are expected to commence operations till FY30 in India resulting in excess supply capacity in the medium term. Nonetheless, in the longer term, when the cycle picks up and product prices improve, Indian OMCs should see a strong improvement in profitability and cash flows.

**Exhibit 27: Combined petrochemical EBIT margin of GAIL and IOCL**



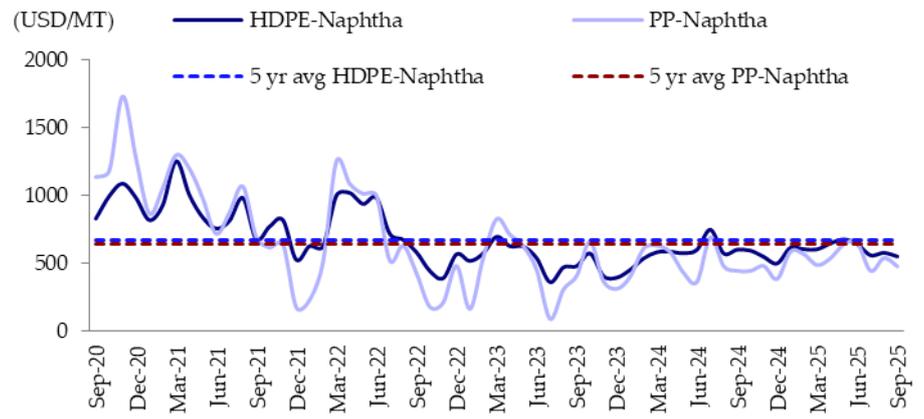
Source: Company, HSIE Research

**Exhibit 28: Prices of major petrochemical products have been under pressure since FY23**



Source: Bloomberg, HSIE Research

**Exhibit 29: Petchem product cracks remain at subdued levels**



Source: Bloomberg, HSIE Research

# Indian Oil Corporation

## Lower crude price to keep integrated margins strong

We upgrade Indian Oil Corporation Ltd (IOCL) from REDUCE to BUY with a price target of INR 190, owing to (i) the potential improvement in marketing margin leading to increased profitability and steady integrated margin. We factor in a marketing margin of INR 6.8/7.1/7.3 per ltr for FY26/27/28E and core GRM of USD 9.2/8.3/8.0 per bbl for FY26/27/28E, resulting in EBITDA/PAT CAGRs of 29/65% over FY25 to FY28E. Currently, the stock is trading at 3.9x FY27 EV/EBITDA and 1x FY27 BV.

- Petchem:** As a part of driving the next leg of growth, IOCL is investing to expand its petrochemical capacity to 13.2MMTPA by 2030 from the current capacity of 4.5MMTPA. This expansion includes setting up (i) a 1.5MMTPA Naphtha cracker unit producing products like Polypropylene (PP), High-Density Polyethylene (HDPE), Linear Low-Density Polyethylene (LLDPE), and Polyvinyl Chloride (PVC) at an estimated investment of INR 610.77bn, (ii) 0.45MMTPA Polypropylene plant at an estimated capex of INR 362.25bn, (iii) a 0.34MMTPA capacity Paraxylene plant at an estimated capex of INR 140bn, and (iv) a 0.5MMTPA capacity PTA plant. These additional capacities are expected to come on stream by FY30. Since Naphtha will be one of the main feedstocks utilized for operating these petrochemical projects, we believe this expansion of petrochemical capacity will enable IOCL to route Naphtha to produce higher margin petrochemical products rather than selling it in markets.
- Refining:** IOCL plans to complete the expansion of its total refining capacity from 80.75MMTPA to 98.4MMTPA by the end of FY27. Most of the incremental capacity will be added at Panipat refinery (10MMTPA), followed by Gujarat refinery (4.3MMTPA) and Barauni refinery (3MMTPA). We believe it will take around 12-24 months for these refineries to achieve 100% utilization once capacity expansion is completed. We estimate standalone core GRMs at USD 9.2/8.3/8.0 per bbl for FY26/27/28E.
- Integrated margins:** As retail fuel selling prices remained unchanged and crude price declined since Q3FY25, integrated margin has gradually expanded since then. Considering the declining crude oil prices, we were of the opinion that the government will tinker with taxation on fuel marketing business to control the marketing margin being reported by OMCs which would in turn cap the upside on the integrated margins. However, during our interactions with the MoPNG and senior management of OMCs, it was made clear to us that the government does not plan to control the marketing margins being made by the OMCs despite crude oil prices remaining under pressure. Hence, we revise marketing margin assumption upwards for FY26/27/28E to INR 6.8/7.1/7.3 per liter.
- Valuation:** We have increased our FY26/27E AEPS estimates by 64/90% to INR 25.4/25.6, owing to expectation of strong integrated margins. We revise our SOTP TP to INR 190/sh, based on 4.0x Mar-27E EV/EBITDA for standalone refining, petchem, marketing, and pipeline businesses and INR 35/sh for other investments. The stock is currently trading at 6.4x Mar-27E EPS.

### Consolidated financial summary

YE March (INR bn)	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
Revenue	3,639	5,893	8,418	7,764	7,581	6,766	6,959	7,157
EBITDA	417	475	314	759	362	726	777	773
APAT	217	247	118	419	86	349	352	443
AEPS (INR)	15.8	17.9	8.6	30.4	6.3	25.4	25.6	32.2
P/E (x)	10.4	9.2	19.1	5.4	26.2	6.5	6.4	5.1
EV / EBITDA (x)	7.7	7.0	11.1	4.4	10.1	4.5	3.9	3.8
RoE (%)	22.0	20.6	7.9	26.0	5.5	17.9	15.7	17.6

Source: Company, HSIE Research

## BUY

CMP (as on 03 Feb 2026)	INR 168
Target Price	INR 190
NIFTY	25,728

KEY CHANGES	OLD	NEW
Rating	REDUCE	BUY
Price Target	INR 150	INR 190
	<b>FY26E</b>	<b>FY27E</b>
EPS change	+64%	+90%

### KEY STOCK DATA

Bloomberg code	IOCL IN
No. of Shares (mn)	14,121
MCap (INR bn) / (\$ mn)	2,366/26,214
6m avg traded value (INR mn)	1,939
52 Week high / low	INR 175/111

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(0.1)	18.8	38.5
Relative (%)	0.2	14.9	30.1

### SHAREHOLDING PATTERN (%)

	Sep-25	Dec-25
Promoters	51.50	51.50
FIs & Local MFs	10.53	10.11
FPIs	7.70	8.58
Public & Others	30.27	29.81
Pledged Shares	0.0	0.0

Source : BSE

### Nilesh Ghuge

nilesh.ghuge@hdfcsec.com  
+91-22-6171-7342

### Dhawal Doshi

dhawal.doshi@hdfcsec.com  
+91-22-6171-7361

### Prasad Vadnere

prasad.vadnere@hdfcsec.com  
+91-22-6171-7356

**Changes in estimates**

YE March	FY26E			FY27E		
	Old	New	(%)	Old	New	(%)
EBITDA (INR bn)	441	726	65	416	777	87
EPS	15.4	25.4	64	13.5	25.6	90

Source: HSIE Research

**Major upcoming projects - IOCL**

Projects	Estimated capex (INR bn.)
Panipat refinery capacity expansion	349.81
Gujarat refinery capacity expansion	189.36
Barauni refinery capacity expansion	128.90
15 new pipeline projects	230.00
Panipat petchem project	32.50
Gujarat petchem project	33.09
Barauni petchem project	19.20
PX-PTA plant at Paradip refinery	138.05

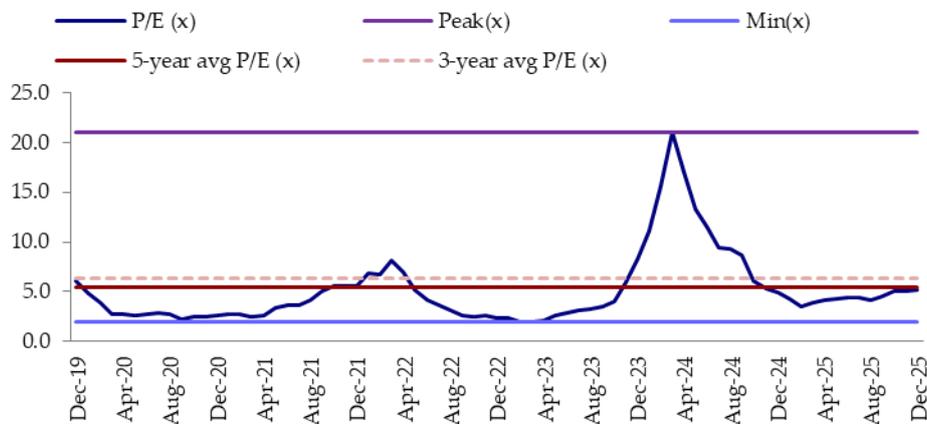
Source: Company, HSIE Research

**HSIE vs. consensus**

YE March	HSIE		Consensus		Variance (%)	
	FY26E	FY27E	FY26E	FY27E	FY26E	FY27E
EBITDA (INR bn)	726	777	580	591	+25.1	+31.4

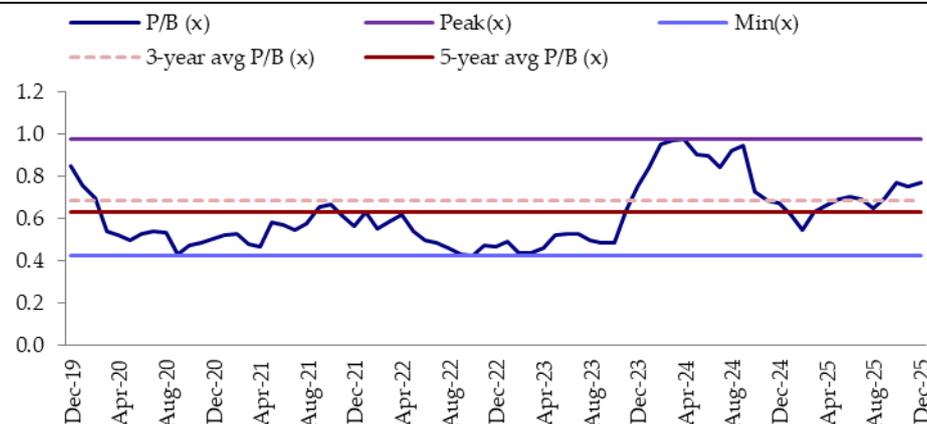
Source: HSIE Research, Bloomberg

**Exhibit 30: IOCL P/E chart**



Source: NSE, Company, HSIE Research

**Exhibit 31: IOCL P/BV chart**



Source: NSE, Company, HSIE Research

**SOTP Valuation**

Business	FY27 EBIDTA (Rs bn)	Multiple	Value (Rs bn)	Value (Rs/sh)
<b>Standalone</b>				
Refining	205.7	4.0	822.7	60
Marketing	440.4	4.0	1,761.6	128
Pipeline	85.6	4.0	342.4	25
Petchem	7.8	4.0	31.2	2
Standalone net Debt			(827.8)	(60)
<b>Standalone Equity Value</b>			<b>2,130.1</b>	<b>155</b>
<b>Investments</b>				
Traded investments			324.7	24
Non traded investments			154.0	11.18
<b>Investments Equity Value</b>				<b>35</b>
<b>Value per share</b>				<b>189</b>

## INCOME STATEMENT

(INR bn)	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
<b>Revenues</b>	3,639	5,893	8,418	7,764	7,581	6,766	6,959	7,157
Growth (%)	(24.8)	61.9	42.8	(7.8)	(2.4)	(10.7)	2.8	2.8
Material Expenses	2,755	4,870	7,476	6,388	6,568	5,357	5,468	5,635
Employee Expenses	113	116	94	117	109	112	116	118
Other Operating Expenses	355	433	534	500	542	571	599	631
<b>EBIDTA</b>	<b>417</b>	<b>475</b>	<b>314</b>	<b>759</b>	<b>362</b>	<b>726</b>	<b>777</b>	<b>773</b>
<b>EBIDTA Margin (%)</b>	<b>11.5</b>	<b>8.1</b>	<b>3.7</b>	<b>9.8</b>	<b>4.8</b>	<b>10.7</b>	<b>11.2</b>	<b>10.8</b>
EBITDA Growth (%)	156.9	13.8	(33.9)	141.7	(52.3)	100.5	7.0	(0.5)
Depreciation	109	119	132	159	168	152	163	175
<b>EBIT</b>	<b>308</b>	<b>356</b>	<b>182</b>	<b>600</b>	<b>194</b>	<b>574</b>	<b>613</b>	<b>597</b>
Other Income Incl EO	35	29	42	38	35	39	44	48
Interest	36	54	75	78	93	76	79	82
PBT	307	331	149	560	137	538	579	563
Tax	90	86	33	141	33	128	142	121
<b>RPAT</b>	<b>217</b>	<b>245</b>	<b>115</b>	<b>419</b>	<b>104</b>	<b>410</b>	<b>437</b>	<b>443</b>
EO (Loss) / Profit (Net of Tax)	(0)	(2)	(3)	(0)	18	60	85	-
<b>APAT</b>	<b>217</b>	<b>247</b>	<b>118</b>	<b>419</b>	<b>86</b>	<b>349</b>	<b>352</b>	<b>443</b>
APAT Growth (%)	(219.1)	13.7	(52.0)	254.0	(79.4)	305.3	0.9	25.7
Share of profit/(loss) of an associate/ a joint venture	12	12	9	15	18	18	19	20
Minority Interest	1	6	19	14	2	10	11	9
<b>Consolidated PAT</b>	<b>228</b>	<b>253</b>	<b>108</b>	<b>420</b>	<b>102</b>	<b>358</b>	<b>361</b>	<b>454</b>
<b>AEPS</b>	<b>15.8</b>	<b>17.9</b>	<b>8.6</b>	<b>30.4</b>	<b>6.3</b>	<b>25.4</b>	<b>25.6</b>	<b>32.2</b>
AEPS Growth (%)	(219.1)	13.7	(52.0)	254.0	(79.4)	305.3	0.9	25.7

Source: Company, HSIE Research

## BALANCE SHEET

(INR bn)	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
<b>SOURCES OF FUNDS</b>								
Share Capital	92	92	138	138	138	138	138	138
Reserves And Surplus	1,027	1,244	1,259	1,696	1,727	2,004	2,319	2,564
<b>Total Equity</b>	<b>1,118</b>	<b>1,335</b>	<b>1,397</b>	<b>1,834</b>	<b>1,865</b>	<b>2,142</b>	<b>2,456</b>	<b>2,702</b>
<b>Minority interest</b>	<b>10</b>	<b>16</b>	<b>35</b>	<b>47</b>	<b>45</b>	<b>48</b>	<b>50</b>	<b>53</b>
Long-term Debt	609	623	698	531	583	598	635	677
Short-term Debt	476	556	651	654	939	699	719	739
<b>Total Debt</b>	<b>1,085</b>	<b>1,179</b>	<b>1,349</b>	<b>1,185</b>	<b>1,523</b>	<b>1,297</b>	<b>1,354</b>	<b>1,416</b>
Deferred Tax Liability	140	154	168	190	207	209	213	217
Other long-term liabilities	50	57	53	57	62	66	72	78
<b>TOTAL SOURCES OF FUNDS</b>	<b>2,403</b>	<b>2,741</b>	<b>3,002</b>	<b>3,314</b>	<b>3,702</b>	<b>3,762</b>	<b>4,146</b>	<b>4,466</b>
<b>APPLICATION OF FUNDS</b>								
Net Block	1,571	1,605	1,800	1,960	2,011	2,140	2,238	2,324
Capital WIP	363	475	511	610	779	788	793	798
Investments	354	443	418	552	568	586	605	624
LT Loans and Advances	26	25	23	26	32	33	34	34
Other Non-Current Assets	73	90	77	91	101	102	103	104
<b>Total Non-current Investments</b>	<b>2,387</b>	<b>2,638</b>	<b>2,829</b>	<b>3,239</b>	<b>3,492</b>	<b>3,649</b>	<b>3,772</b>	<b>3,885</b>
Inventories	834	1,117	1,211	1,214	1,139	980	999	1,027
Debtors	138	187	163	138	186	148	152	156
Cash and Cash Equivalents	118	98	125	135	137	307	555	742
Other Current Assets	72	66	90	97	115	130	151	177
<b>Total Current Assets</b>	<b>1,162</b>	<b>1,469</b>	<b>1,589</b>	<b>1,584</b>	<b>1,576</b>	<b>1,565</b>	<b>1,857</b>	<b>2,102</b>
Creditors	372	490	547	595	605	504	513	526
Other Current Liabilities & Provn's	773	875	868	915	761	948	971	994
<b>Total Current Liabilities</b>	<b>1,146</b>	<b>1,365</b>	<b>1,416</b>	<b>1,510</b>	<b>1,367</b>	<b>1,452</b>	<b>1,484</b>	<b>1,521</b>
<b>Net Current Assets</b>	<b>16</b>	<b>103</b>	<b>173</b>	<b>75</b>	<b>210</b>	<b>113</b>	<b>373</b>	<b>581</b>
<b>TOTAL APPLICATION OF FUNDS</b>	<b>2,403</b>	<b>2,741</b>	<b>3,002</b>	<b>3,314</b>	<b>3,702</b>	<b>3,762</b>	<b>4,146</b>	<b>4,466</b>

Source: Company, HSIE Research

## CASH FLOW STATEMENT

(INR bn)	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
Reported PBT	307	331	149	560	137	538	579	563
Non-operating & EO Items	(24)	(21)	(49)	(37)	(37)	(91)	(121)	(37)
Interest Expenses	36	54	75	78	93	76	79	82
Depreciation	109	119	132	159	168	152	163	175
Working Capital Change	187	(106)	(43)	109	(134)	267	(12)	(22)
Tax Paid	(65)	(72)	(19)	(120)	(16)	(125)	(138)	(117)
<b>OPERATING CASH FLOW ( a )</b>	<b>550</b>	<b>304</b>	<b>245</b>	<b>749</b>	<b>210</b>	<b>816</b>	<b>550</b>	<b>645</b>
Capex	(244)	(265)	(364)	(417)	(388)	(289)	(267)	(266)
<b>Free Cash Flow (FCF)</b>	<b>305</b>	<b>39</b>	<b>(119)</b>	<b>332</b>	<b>(178)</b>	<b>527</b>	<b>283</b>	<b>379</b>
Investments	(82)	(89)	26	(134)	(17)	(18)	(19)	(20)
Non-operating Income	35	29	42	38	35	39	44	48
Others	20	(15)	15	(18)	(16)	(2)	(2)	(2)
<b>INVESTING CASH FLOW ( b )</b>	<b>(271)</b>	<b>(341)</b>	<b>(281)</b>	<b>(530)</b>	<b>(386)</b>	<b>(269)</b>	<b>(243)</b>	<b>(239)</b>
Debt Issuance/(Repaid)	(175)	94	170	(163)	337	(226)	58	62
Interest Expenses	(36)	(54)	(75)	(78)	(93)	(76)	(79)	(82)
<b>FCFE</b>	<b>95</b>	<b>79</b>	<b>(25)</b>	<b>90</b>	<b>67</b>	<b>226</b>	<b>262</b>	<b>359</b>
Share Capital Issuance	-	-	46	-	-	-	-	-
Dividend	(195)	(205)	(41)	(165)	(41)	(201)	(216)	(209)
Others	139	182	(35)	199	(27)	126	177	9
<b>FINANCING CASH FLOW ( c )</b>	<b>(267)</b>	<b>17</b>	<b>63</b>	<b>(208)</b>	<b>177</b>	<b>(377)</b>	<b>(59)</b>	<b>(219)</b>
<b>NET CASH FLOW (a+b+c)</b>	<b>12</b>	<b>(19)</b>	<b>27</b>	<b>10</b>	<b>1</b>	<b>171</b>	<b>248</b>	<b>186</b>
<b>Closing Cash &amp; Equivalents</b>	<b>118</b>	<b>98</b>	<b>125</b>	<b>135</b>	<b>137</b>	<b>307</b>	<b>555</b>	<b>742</b>

Source: Company, HSIE Research

## KEY RATIOS

	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
<b>PROFITABILITY %</b>								
EBITDA Margin	11.5	8.1	3.7	9.8	4.8	10.7	11.2	10.8
EBIT Margin	8.5	6.0	2.2	7.7	2.6	8.5	8.8	8.3
APAT Margin	6.3	4.3	1.3	5.4	1.3	5.3	5.2	6.3
RoE	22.0	20.6	7.9	26.0	5.5	17.9	15.7	17.6
RoC	11.8	13.3	6.0	18.4	5.5	14.8	15.0	16.9
RoCE	24.4	23.9	12.2	29.6	9.3	20.7	18.3	20.1
<b>EFFICIENCY</b>								
Tax Rate %	29.3	25.9	22.4	25.2	23.9	23.8	24.5	21.4
Fixed Asset Turnover (x)	1.9	2.8	3.5	2.9	2.6	2.1	2.0	1.9
Inventory (days)	84	69	53	57	55	53	52	52
Debtors (days)	14	12	7	7	9	8	8	8
Other Current Assets (days)	7	4	4	5	6	7	8	9
Payables (days)	49	37	27	34	34	34	34	34
Other Current Liab & Provns (days)	78	54	38	43	37	51	51	51
Cash Conversion Cycle (days)	(22)	(6)	(1)	(9)	(1)	(18)	(17)	(15)
Net Debt/EBITDA (x)	2.3	2.3	3.9	1.4	3.8	1.4	1.0	0.9
Net D/E	0.9	0.8	0.9	0.6	0.7	0.5	0.3	0.2
Interest Coverage	8.6	6.6	2.4	7.7	2.1	7.6	7.8	7.3
<b>PER SHARE DATA (Rs)</b>								
EPS	15.8	17.9	8.6	30.4	6.3	25.4	25.6	32.2
CEPS	23.7	26.5	18.2	41.9	18.4	36.4	37.5	44.9
Dividend	14.2	14.9	3.0	12.0	3.0	14.6	15.6	15.1
Book Value	81.2	97.0	101.4	133.2	135.4	155.5	178.3	196.2
<b>VALUATION</b>								
P/E (x)	10.4	9.2	19.1	5.4	26.2	6.5	6.4	5.1
P/Cash EPS (x)	6.9	6.2	9.0	3.9	8.9	4.5	4.4	3.7
P/BV (x)	2.0	1.7	1.6	1.2	1.2	1.1	0.9	0.8
EV/EBITDA (x)	7.7	7.0	11.1	4.4	10.1	4.5	3.9	3.8
EV/Revenue (x)	0.9	0.6	0.4	0.4	0.5	0.5	0.4	0.4
OCF/EV (%)	17.0	9.1	7.0	22.6	5.8	25.1	18.0	22.0
FCFF/EV (%)	9.5	1.2	(3.4)	10.0	(4.9)	16.2	9.3	12.9
FCFE/M Cap (%)	4.2	3.5	(1.1)	4.0	3.0	10.0	11.6	15.9
Dividend Yield (%)	8.6	9.1	1.8	7.3	1.8	8.9	9.5	9.2

Source: Company, HSIE Research

# Bharat Petroleum Corporation

## Healthy integrated margin to boost earnings

We upgrade Bharat Petroleum (BPCL) from REDUCE to BUY, with a target price of INR 455. We expect BPCL's integrated margin to remain strong due to increased share of marketing margin. We are building in marketing margins of INR 4.3/4.9/5.3 per litre for HSD and INR 4.5/4.7/5.0 for MS over FY26/27/28E. Given the high capex being undertaken by BPCL for setting up petchem plants and increasing refining capacity, we expect its RoE to decline by 517 bps from 26.8% in FY26E to 21.6% in FY28E. Nonetheless, stable integrated margin should result in EBITDA/PAT CAGR of 18/28% over FY25 to FY28E. Currently, the stock is trading at 4.4x FY27 EV/EBITDA and 1.3x FY27 BV. We believe integrated margins will remain healthy in the near term as crude oil prices remain benign and retail prices remain stable. BPCL, with fully integrated business from crude refining to marketing, will continue to benefit.

- Integrated margins:** As mentioned earlier, we believe that the elevated gross refining margins should cool off as product spreads normalize in near to medium term. Marketing margins and gross refining margins are negatively correlated in the present environment where crude oil price is less volatile and there is no change in retail prices of auto fuels. Any reduction in gross refining margin will pave the way for higher marketing margin. This negative correlation between the two margins will result in integrated margin continuing to remain stable. To our mind, the government may not tweak either retail selling fuel prices or change the excise duty rate on transportation fuels despite crude oil prices remaining stressed in the near term. This enables sustained strong marketing margins for OMCs. Hence, we revise our FY26/FY27E marketing margin assumption upward for BPCL. According to our calculations, a INR 1/litre increase in BPCL's marketing margin results in an 20% rise in its annual EPS.
- Petchem segment to observe near-term headwinds:** The company believes that transportation fuel demand in India will continue to rise through 2040 and then plateau before declining from 2050 onwards. As a part of preparing BPCL to transition away from dependence on transportation fuel, management believes that expanding presence in petrochemical is of vital importance and hence is making significant investments in the petrochemical business. BPCL currently operates a PDPP plant in Kochi and is setting up a 400KTPA capacity polypropylene unit at an estimated cost of INR 50bn. It is also setting up a petrochemical plant at Bina, which involves a 1,150 KTPA polyethylene plant and 550 KTPA polypropylene plant. These projects will be completed by FY29 and consume naphtha and ethane as feedstocks. While the management is confident of the current downcycle in the global petrochemical market reversing by FY29-30 and these investments yielding an IRR of 11% at the least, we believe the downcycle will last longer and have an impact on the business's profitability for the first few years, following the completion of expansion.
- Refining:** BPCL is expected to conclude the Bina refinery capacity expansion from 7.8MMTPA to 11 MMTPA by FY29 and bottoms upgradation at the Mumbai refinery is expected to complete by FY30. This bottoms upgradation at the Mumbai refinery will provide higher volume of greater margin products leading to an increased chance of improved GRMs. We are building core GRMs of USD 9.1/8.1/8.2 for FY26/27/28E.
- Valuation:** We increase our FY26/27E EPS estimates by 60/72% as we expect integrated margins to remain strong. We have revised our target price to INR 455/sh (4.5x Mar-27E EV/e for refining, marketing, and pipeline businesses, and INR 65/sh for other investments). The stock is currently trading at 6.4x Mar-27E EPS.

**BUY**

CMP (as on 03 Feb 2026)	INR 373
Target Price	INR 455
NIFTY	25,728

KEY CHANGES	OLD	NEW
Rating	REDUCE	BUY
Price Target	INR 345	INR 455
EPS %	FY26E +60%	FY27E +72%

### KEY STOCK DATA

Bloomberg code	BPCL IN
No. of Shares (mn)	4,339
MCap (INR bn) / (\$ mn)	1,619/17,938
6m avg traded value (INR mn)	2,540
52 Week high / low	INR 388/234

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(3.6)	(13.9)	(25.7)
Relative (%)	(0.7)	(8.9)	(32.1)

### SHAREHOLDING PATTERN (%)

	Sep-25	Dec-25
Promoters	52.98	52.98
FIs & Local MFs	21.30	19.56
FPIs	16.53	18.46
Public & Others	9.19	9.00
Pledged Shares	0.00	0.00

Source: BSE

### Nilesh Ghuge

nilesh.ghuge@hdfcsec.com  
+91-22-6171-7342

### Dhawal Doshi

dhawal.doshi@hdfcsec.com  
+91-22-6171-7361

### Prasad Vadnere

prasad.vadnere@hdfcsec.com  
+91-22-6171-7356

### Consolidated financial summary

YE March (INR bn)	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
Revenue	2,302	3,468	4,732	4,481	4,403	4,351	4,577	4,788
EBITDA	213	191	109	441	254	392	392	422
APAT	162	117	21	269	133	243	244	279
AEPS (INR)	37.8	27.3	5.0	62.9	31.2	56.8	57.1	65.4
P/E (x)	9.6	13.3	73.0	5.8	11.7	6.4	6.4	5.6
EV / EBITDA (x)	8.8	10.5	18.9	4.3	7.6	4.6	4.4	3.9
RoE (%)	35.9	22.2	4.0	41.6	17.0	26.8	22.2	21.6

Source: Company, HSIE Research

### Changes in estimates

YE March	FY26E			FY27E		
	Old	New	(%)	Old	New	(%)
EBITDA (INR bn)	261	392	50	243	392	62
EPS	35.5	56.8	60	33.1	57.1	72

Source: HSIE Research

### Major upcoming projects - BPCL

Projects	Estimated capex (INR bn.)
Ethylene cracker unit and petchem plants at Bina	500
Polypropylene plant at Kochi	50
Various pipelines	80

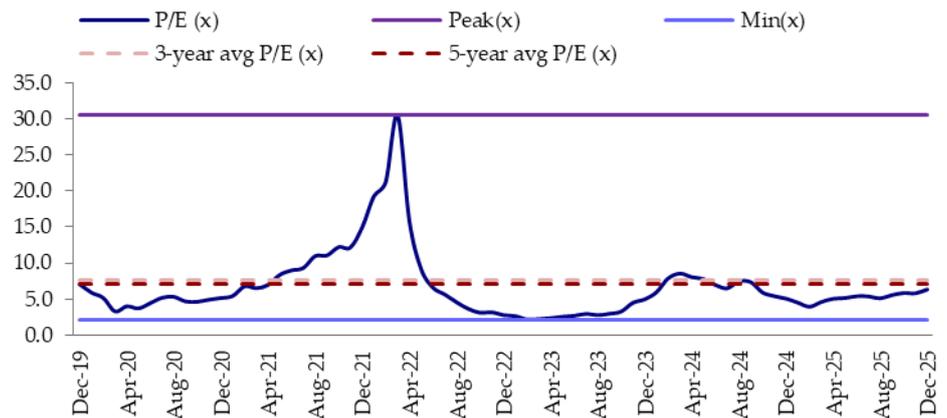
Source: Company, HSIE Research

### HSIE vs. consensus

YE March	HSIE		Consensus		Variance (%)	
	FY26E	FY27E	FY26E	FY27E	FY26E	FY27E
EBITDA (INR bn)	392	392	393	333	0	+17.7

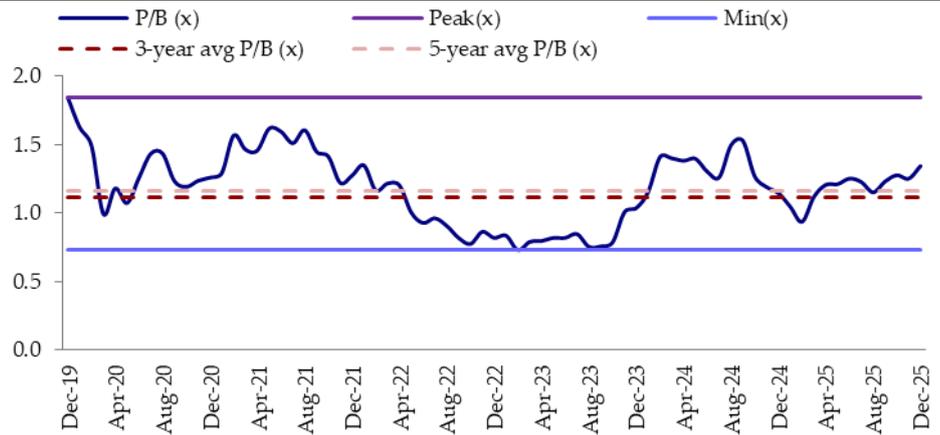
Source: HSIE Research, Bloomberg

### Exhibit 32: BPCL P/E chart



Source: NSE, Company, HSIE Research

Exhibit 33: BPCL P/BV chart



Source: NSE, Company, HSIE Research

**SOTP Valuation**

Business	FY27 EBIDTA (Rs bn)	Multiple	Value (Rs bn)	Value (Rs/sh)
<b>Standalone</b>				
Refining	166.33	4.5	748.5	175
Marketing + Pipeline	230.39	4.5	1,036.8	243
Standalone net Debt			(115.9)	(27)
<b>Standalone Equity Value</b>			<b>1,669.34</b>	<b>391</b>
<b>E &amp; P</b>				
Mozambique			60.3	14
<b>Investments</b>				
<b>Traded Investments</b>				<b>23</b>
Value of other investments			121.0	28
<b>Investments Equity Value</b>			<b>308.4</b>	<b>65</b>
<b>Value per share</b>				<b>455</b>

## INCOME STATEMENT

(INR bn)	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
<b>Revenues</b>	2,302	3,468	4,732	4,481	4,403	4,351	4,577	4,788
<b>Growth %</b>	(19.1)	50.7	36.4	(5.3)	(1.7)	(1.2)	5.2	4.6
Raw Material	1,874	3,034	4,332	3,761	3,853	3,648	3,861	4,029
Employee Cost	49	34	28	36	35	38	41	43
Other Expenses	166	208	263	243	261	273	284	294
<b>EBITDA</b>	213	191	109	441	254	392	392	422
<b>EBITDA Margin (%)</b>	9.3	5.5	2.3	9.8	5.8	9.0	8.6	8.8
<b>EBITDA Growth %</b>	138.5	(10.1)	(43.1)	304.9	(42.4)	54.5	(0.0)	7.5
Depreciation	43	54	64	68	73	74	75	83
<b>EBIT</b>	170	137	45	373	181	319	317	338
Other Income	75	34	(1)	20	23	64	80	40
Interest	17	26	37	41	36	41	47	54
<b>PBT</b>	228	145	6	351	169	342	351	325
Tax	51	44	7	93	48	86	88	82
<b>RPAT</b>	176	101	(1)	258	120	256	262	243
EO (Loss) / Profit (Net Of Tax)						32	44	
<b>APAT</b>	176	101	(1)	258	120	224	218	243
Minority interest	(15)	15	22	11	13	19	26	36
<b>Consolidated APAT</b>	162	117	21	269	133	243	244	279
APAT Growth (%)	429.1	(27.7)	(81.8)	1,160.4	(50.3)	82.0	0.6	14.5
<b>AEPS</b>	37.8	27.3	5.0	62.9	31.2	56.8	57.1	65.4
<b>AEPS Growth %</b>	429.1	(27.7)	(81.8)	1,160.4	(50.3)	82.0	0.6	14.5

Source: Company, HSIE Research

## BALANCE SHEET

(INR bn)	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
<b>SOURCES OF FUNDS</b>								
Share Capital	21	21	21	21	43	43	43	43
Reserves And Surplus	515	498	514	735	771	954	1,155	1,343
<b>Total Equity</b>	536	519	535	756	814	997	1,198	1,386
<b>Minority interest</b>	-	-	-	-	-	-	-	-
Long-term Debt	434	444	496	355	354	412	504	596
Short-term Debt	42	75	72	78	151	151	151	151
<b>Total Debt</b>	476	519	568	432	504	563	655	747
Deferred Tax Liability	49	64	79	80	83	97	111	126
Other long-term liabilities	22	18	22	24	27	27	27	27
<b>TOTAL SOURCES OF FUNDS</b>	1,083	1,120	1,204	1,293	1,428	1,684	1,991	2,286
<b>APPLICATION OF FUNDS</b>								
Net Block	641	839	867	868	886	999	1,105	1,202
Capital WIP	171	154	162	202	264	281	300	320
Investments	200	192	225	223	229	240	252	265
LT Loans and Advances	53	42	45	45	49	52	54	57
Other Non-Current assets	25	28	22	29	27	28	29	30
<b>Total Non-current Assets</b>	1,090	1,255	1,321	1,367	1,456	1,600	1,740	1,873
Inventories	267	422	381	428	453	375	397	415
Debtors	78	97	67	83	93	87	92	96
Cash and Cash Equivalents	149	67	69	106	141	294	481	667
Loans and advances	1	1	1	1	1	1	2	2
Other Current Assets	24	33	42	38	39	43	48	53
<b>Total Current Assets</b>	520	620	560	657	728	802	1,019	1,232
Creditors	163	303	240	283	306	279	295	308
Other Current Liabilities & Provns	364	452	437	448	450	439	473	511
<b>Total Current Liabilities</b>	527	756	677	731	756	718	768	819
<b>Net Current Assets</b>	(7)	(136)	(117)	(74)	(28)	84	251	412
<b>TOTAL APPLICATION OF FUNDS</b>	1,083	1,120	1,204	1,293	1,428	1,684	1,991	2,286

Source: Company, HSIE Research

## CASH FLOW STATEMENT

(INR bn)	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
Reported PBT	228	145	6	351	169	342	351	325
Non-operating & EO Items	(90)	(19)	23	(9)	(10)	(77)	(99)	(4)
Interest Expenses	17	26	37	41	36	41	47	54
Depreciation	43	54	64	68	73	74	75	83
Working Capital Change	101	46	(17)	(5)	(11)	41	19	25
Tax Paid	(63)	(29)	9	(93)	(45)	(72)	(74)	(67)
<b>OPERATING CASH FLOW ( a )</b>	<b>235</b>	<b>224</b>	<b>122</b>	<b>354</b>	<b>211</b>	<b>349</b>	<b>319</b>	<b>415</b>
Capex	(76)	(235)	(100)	(108)	(153)	(204)	(199)	(201)
<b>Free Cash Flow (FCF)</b>	<b>159</b>	<b>(11)</b>	<b>22</b>	<b>245</b>	<b>58</b>	<b>145</b>	<b>120</b>	<b>215</b>
Investments	18	8	(33)	2	(5)	(11)	(12)	(13)
Non-operating Income	75	34	(1)	20	23	64	80	40
Others	1	8	4	(7)	(3)	(3)	(3)	(4)
<b>INVESTING CASH FLOW ( b )</b>	<b>18</b>	<b>(186)</b>	<b>(131)</b>	<b>(94)</b>	<b>(138)</b>	<b>(155)</b>	<b>(134)</b>	<b>(177)</b>
Debt Issuance/(Repaid)	(141)	43	49	(136)	72	59	92	92
Interest Expenses	(17)	(26)	(37)	(41)	(36)	(41)	(47)	(54)
<b>FCFE</b>	<b>1</b>	<b>6</b>	<b>34</b>	<b>68</b>	<b>94</b>	<b>163</b>	<b>165</b>	<b>253</b>
Share Capital Issuance	1	0	-	0	21	-	-	-
Dividend	(399)	(81)	(17)	(179)	(43)	(91)	(88)	(91)
Others	388	(57)	16	134	(52)	32	44	0
<b>FINANCING CASH FLOW ( c )</b>	<b>(168)</b>	<b>(121)</b>	<b>11</b>	<b>(222)</b>	<b>(38)</b>	<b>(42)</b>	<b>2</b>	<b>(53)</b>
<b>NET CASH FLOW (a+b+c)</b>	<b>85</b>	<b>(82)</b>	<b>2</b>	<b>37</b>	<b>36</b>	<b>153</b>	<b>187</b>	<b>186</b>
EO Items, Others								
<b>Closing Cash &amp; Equivalents</b>	<b>149</b>	<b>67</b>	<b>69</b>	<b>106</b>	<b>141</b>	<b>294</b>	<b>481</b>	<b>667</b>

Source: Company, HSIE Research

## KEY RATIOS

	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
<b>PROFITABILITY %</b>								
EBITDA Margin	9.3	5.5	2.3	9.8	5.8	9.0	8.6	8.8
EBIT Margin	7.4	4.0	1.0	8.3	4.1	7.3	6.9	7.1
APAT Margin	7.0	3.4	0.5	6.0	3.0	5.6	5.3	5.8
RoE	35.9	22.2	4.0	41.6	17.0	26.8	22.2	21.6
RoIC	16.0	13.6	(0.7)	30.2	14.5	22.5	20.2	23.4
RoCE	16.2	12.3	1.5	24.0	11.7	17.6	15.2	15.0
<b>EFFICIENCY</b>								
Tax Rate %	22.5	30.0	109.7	26.6	28.7	25.2	25.2	25.2
Fixed Asset Turnover (x)	2.9	3.4	4.2	3.8	3.5	3.0	2.8	2.7
Inventory (days)	42	44	29	35	38	31	32	32
Debtors (days)	12	10	5	7	8	7	7	7
Other Current Assets (days)	4	4	3	3	3	4	4	4
Payables (days)	32	37	20	27	29	28	28	28
Other Current Liab & Provns (days)	58	48	34	37	37	37	38	39
Cash Conversion Cycle (days)	(31)	(26)	(16)	(19)	(18)	(22)	(23)	(24)
Net Debt/EBITDA (x)	1.5	2.4	4.6	0.7	1.4	0.7	0.4	0.2
Net D/E	0.6	0.9	0.9	0.4	0.4	0.3	0.1	0.1
Interest Coverage	9.8	5.3	1.2	9.0	5.1	7.8	6.8	6.3
<b>PER SHARE DATA (Rs)</b>								
AEPS	37.8	27.3	5.0	62.9	31.2	56.8	57.1	65.4
CEPS	48.0	40.1	19.9	78.7	48.2	74.0	74.8	84.9
Dividend	93.5	18.9	4.0	42.0	10.0	21.3	20.5	21.4
Book Value	125.3	121.5	125.3	177.0	190.5	233.4	280.4	324.4
<b>VALUATION</b>								
P/E (x)	9.6	13.3	73.0	5.8	11.7	6.4	6.4	5.6
P/Cash EPS (x)	7.6	9.1	18.3	4.6	7.6	4.9	4.9	4.3
P/BV (x)	2.9	3.0	2.9	2.1	1.9	1.6	1.3	1.1
EV/EBITDA (x)	8.8	10.5	18.9	4.3	7.6	4.6	4.4	3.9
EV/Revenue (x)	0.8	0.6	0.4	0.4	0.4	0.4	0.4	0.3
OCF/EV (%)	12.5	11.2	5.9	18.8	11.0	19.1	18.4	25.4
FCFF/EV (%)	8.5	(0.6)	1.1	13.0	3.0	8.0	6.9	13.1
FCFE/M Cap (%)	0.1	0.4	2.2	4.4	6.1	10.5	10.6	16.3
Dividend Yield (%)	25.7	5.2	1.1	11.5	2.7	5.9	5.6	5.9

Source: Company, HSIE Research

# Hindustan Petroleum Corporation

## Marketing margin to prop earnings

We upgrade Hindustan Petroleum Corporation (HPCL) from REDUCE to BUY with a price target of INR 579, owing to (i) the potential improvement in marketing margin leading to increased profitability. We factor in a marketing margin of INR 6.4/6.8/7.1 per ltr for FY26/27/28E and core GRM of USD 8.7/7.7/7.6 per bbl for FY26/27/28E, resulting in EBITDA/PAT CAGRs of 31/51% over FY25 to FY28E. Currently, the stock is trading at 4.0x FY27 EV/EBITDA and 1.2x FY27 BV.

- Integrated margin should remain strong:** HPCL's earnings have the highest sensitivity to changes in marketing margins among the Indian OMCs due to the high share of marketing volumes. This earnings sensitivity leads to the highest negative correlation between HPCL's marketing and refining margins among the Indian OMC players (-0.91). As we believe that gross refining margin should cool down in the coming quarters, marketing margin that is negatively correlated to the changes in refining margin should see an uptick, resulting in integrated margins remaining strong. Considering HPCL's earnings being highly sensitive to changes in marketing margin, the company is well placed to benefit from any potential increase in marketing margin, in our view. Considering the potential improvement in marketing margin, we revise our FY26/27/28E marketing margin assumption to INR 6.4/6.8/7.1 per ltr.
- Petchem:** HPCL, along with its JV partner, the government of Rajasthan, is building an integrated refinery and petrochemical complex in Rajasthan. This complex is being built with an estimated capex of INR 729bn and will have a refining capacity of 9MMTPA, including petrochemical capacity of 2.4MMTPA. Once completed, this complex will more than double HPCL group's petrochemical capacity from 2.2MMTPA currently to 4.6MMTPA. While the refinery is expected to come online in Q4FY26, the petrochemical unit is expected to begin operations in Q2FY27. We believe the petrochemical plant should see a capacity utilization of ~50% for H2FY27 and ramp up to 100% utilization by the end of FY27. At 100% utilization, this petrochemical plant should be able to generate a gross margin of ~ USD 7/bbl, in our view.
- Refining:** HPCL has completed the residual upgradation of its Visakhapatnam refinery which has a refining capacity of 15MMTPA. This will now enable it to further process fuel oil to diesel. We believe this increased diesel production will result in a USD 2-3/bbl GRM improvement, resulting in ~ INR 17bn of incremental gains per annum. Moreover, the 9MMTPA integrated refinery located in Rajasthan is expected to begin operations in Q1FY27 and reach 100% utilization by the end of FY27. We estimate standalone GRMs at USD 8.7/7.7/7.6 per bbl for FY26/27/28E.
- Valuation and change in estimates:** We have increased our FY26/27E AEPS estimates by 23/84% to INR 85/93 per share. Our SOTP target price of INR 579 is based on 4.5x Mar-27E EV/EBITDA for standalone refining, marketing, and pipeline business respectively, and INR 118/sh for other investments. The stock is currently trading at 4.8x Mar-27E EPS.

### Consolidated financial summary

YE March (INR bn)	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
Revenue	2,332	3,499	4,407	4,339	4,341	4,375	4,617	4,875
EBITDA	160	102	(72)	249	166	308	345	375
APAT	107	73	(70)	160	67	181	200	233
AEPS (INR)	50.1	34.3	(32.8)	75.2	31.6	84.9	93.9	109.5
P/E (x)	9.0	13.2	(13.8)	6.0	14.3	5.3	4.8	4.1
EV / EBITDA (x)	8.3	13.3	(21.9)	6.2	9.6	4.9	4.0	3.4
RoE (%)	30.9	18.4	(19.0)	40.4	13.7	36.4	32.9	25.6

Source: Company, HSIE Research

**BUY**

CMP (as on 03 Feb 2026)	INR 451
Target Price	INR 579
NIFTY	25,728

KEY CHANGES	OLD	NEW
Rating	REDUCE	BUY
Price Target	INR 413	INR 579
	FY26E	FY27E
EPS change	+23%	+84%

### KEY STOCK DATA

Bloomberg code	HPCL IN
No. of Shares (mn)	2,128
MCap (INR bn) / (\$ mn)	959/10,623
6m avg traded value (INR mn)	2,006
52 Week high / low	INR 508/288

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(6.9)	11.6	38.7
Relative (%)	(6.6)	7.7	30.2

### SHAREHOLDING PATTERN (%)

	Sep-25	Dec-25
Promoters	54.90	54.90
FIs & Local MFs	23.57	20.66
FPIs	12.55	16.36
Public & Others	8.98	8.08
Pledged Shares	0.0	0.0

Source : BSE

### Nilesh Ghuge

nilesh.ghuge@hdfcsec.com  
+91-22-6171-7342

### Dhawal Doshi

dhawal.doshi@hdfcsec.com  
+91-22-6171-7361

### Prasad Vadnere

prasad.vadnere@hdfcsec.com  
+91-22-6171-7356

**Changes in estimates**

YE March	FY26E			FY27E		
	Old	New	(%)	Old	New	(%)
EBITDA (INR bn)	254	308	21	215	345	60
EPS	68.8	84.9	23	51.1	93.9	84

Source: HSIE Research

**Major upcoming projects - HPCL**

Projects	Estimated capex (INR bn.)
Greenfield refinery and petchem plant at Rajasthan	729
Bottom upgradation at Mumbai Refinery	47

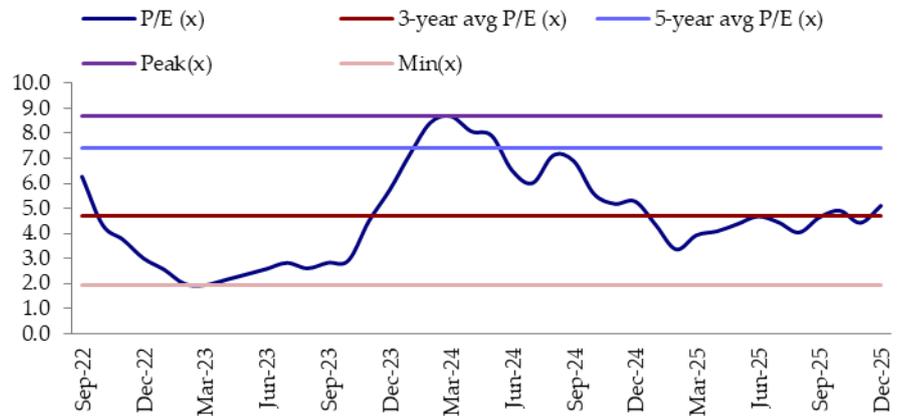
Source: Company, HSIE Research

**HSIE vs. consensus**

YE March	HSIE		Consensus		Variance (%)	
	FY26E	FY27E	FY26E	FY27E	FY26E	FY27E
EBITDA (INR bn)	308	345	281	254	+9.6	+35.8

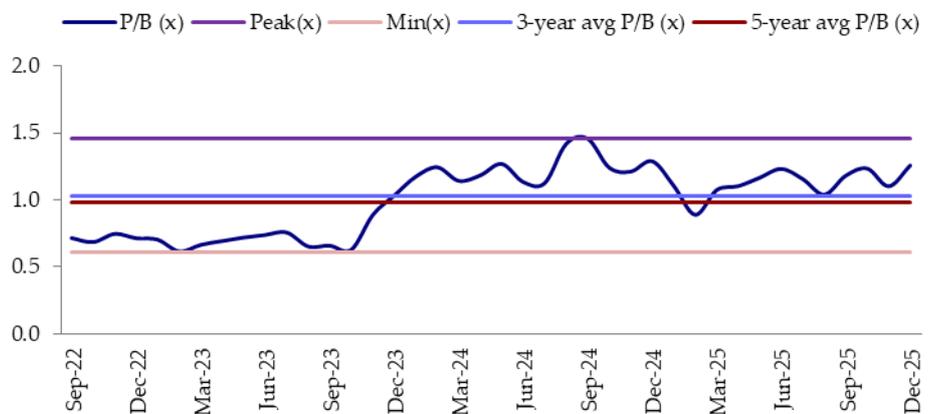
Source: HSIE Research, Bloomberg

**Exhibit 34: HPCL P/E chart**



Source: NSE, Company, HSIE Research

**Exhibit 35: HPCL P/BV chart**



Source: NSE, Company, HSIE Research

**SOTP Valuation**

<b>Business</b>	<b>FY 27 EBITDA (Rs bn)</b>	<b>Multiple</b>	<b>Value (Rs bn)</b>	<b>Value (Rs/sh)</b>
<b>Standalone</b>				
Refining	91.76	4.5	412.92	194
Marketing	233.47	4.5	1,050.64	494
Pipeline	20.42	4.5	91.91	43
Standalone net Debt			(574.72)	-270
<b>Standalone Equity Value</b>	<b>345.66</b>		<b>980.74</b>	<b>461</b>
<b>Investments</b>				
HMEL Investment	69.3	6.0	415.75	
HMEL net debt			(157.51)	
<b>HMEL Equity value</b>			<b>258.24</b>	<b>59</b>
<b>Traded investments</b>				<b>17</b>
<b>Other non-traded investments</b>			<b>87.75</b>	<b>41</b>
<b>Investments Equity Value</b>			<b>383.23</b>	<b>118</b>
<b>Value per share</b>				<b>579</b>

**INCOME STATEMENT**

(INR bn)	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
<b>Revenues</b>	2,332	3,499	4,407	4,339	4,341	4,375	4,617	4,875
<i>Growth %</i>	(13.3)	50.0	25.9	(1.6)	0.1	0.8	5.5	5.6
Raw Material	2,006	3,221	4,272	3,876	3,949	3,828	4,027	4,248
Employee Cost	32	30	30	35	34	36	38	40
Other Expenses	135	145	177	179	193	202	207	212
<b>EBITDA</b>	160	102	(72)	249	166	308	345	375
<i>EBITDA Margin (%)</i>	6.9	2.9	(1.6)	5.7	3.8	7.1	7.5	7.7
<i>EBITDA Growth %</i>	243.5	(36.0)	(170.4)	445.9	(33.6)	86.4	11.9	8.7
Depreciation	36	40	46	56	62	63	70	77
<b>EBIT</b>	124	62	(118)	193	104	246	275	298
Other Income	26	24	15	19	21	56	71	28
Interest	10	10	22	26	34	30	31	27
<b>PBT</b>	141	77	(125)	187	91	272	316	299
Share from JV's/associates	1	15	25	18	(1)	14	13	12
Tax	35	18	(30)	45	23	72	83	78
<b>RPAT</b>	107	73	(70)	160	67	214	246	233
EO (Loss) / Profit (Net of Tax)	-	-	-	-	-	33	46	-
<b>APAT</b>	107	73	(70)	160	67	181	200	233
<i>APAT Growth (%)</i>	3,374.9	(31.6)	(195.7)	329.4	(57.9)	168.1	10.6	16.6
<b>AEPS</b>	50.1	34.3	(32.8)	75.2	31.6	84.9	93.9	109.5
<i>AEPS Growth %</i>	3,374.9	(31.6)	(195.7)	329.4	(57.9)	168.1	10.6	16.6

Source: Company, HSIE Research

**BALANCE SHEET**

(INR bn)	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
<b>SOURCES OF FUNDS</b>								
Share Capital	15	14	14	14	21	21	21	21
Reserves And Surplus	366	400	308	455	490	640	813	965
<b>Total Equity</b>	<b>381</b>	<b>414</b>	<b>323</b>	<b>469</b>	<b>511</b>	<b>661</b>	<b>834</b>	<b>987</b>
Long-term Debt	278	321	482	379	347	307	247	177
Short-term Debt	149	129	189	249	318	321	324	327
<b>Total Debt</b>	<b>427</b>	<b>450</b>	<b>670</b>	<b>628</b>	<b>664</b>	<b>627</b>	<b>571</b>	<b>504</b>
Deferred Tax Liability	55	60	29	69	77	80	83	87
Other long-term liabilities	212	37	41	46	50	50	50	50
<b>TOTAL SOURCES OF FUNDS</b>	<b>1,075</b>	<b>961</b>	<b>1,064</b>	<b>1,212</b>	<b>1,302</b>	<b>1,418</b>	<b>1,538</b>	<b>1,628</b>
<b>APPLICATION OF FUNDS</b>								
Net Block	509	581	684	798	862	931	991	1,035
Capital WIP	253	289	256	201	180	181	162	142
Investments	97	135	185	244	238	245	248	250
LT Loans and Advances	10	9	10	12	51	55	59	62
Other Non-current assets	31	34	39	45	40	40	41	42
<b>Total Non-current assets</b>	<b>900</b>	<b>1,049</b>	<b>1,174</b>	<b>1,299</b>	<b>1,370</b>	<b>1,452</b>	<b>1,500</b>	<b>1,531</b>
Inventories	288	355	296	342	383	351	369	390
Debtors	69	63	68	93	118	106	112	118
Cash and Cash Equivalents	60	56	58	57	35	94	159	208
Other Current Assets	25	23	17	37	41	42	44	47
<b>Total Current Assets</b>	<b>442</b>	<b>497</b>	<b>440</b>	<b>529</b>	<b>577</b>	<b>594</b>	<b>685</b>	<b>762</b>
Creditors	178	265	229	273	298	277	291	307
Other Current Liabilities & Provsns	89	321	321	343	347	351	355	359
<b>Total Current Liabilities</b>	<b>267</b>	<b>586</b>	<b>550</b>	<b>616</b>	<b>645</b>	<b>628</b>	<b>646</b>	<b>666</b>
<b>Net Current Assets</b>	<b>175</b>	<b>(88)</b>	<b>(110)</b>	<b>(87)</b>	<b>(68)</b>	<b>(34)</b>	<b>39</b>	<b>97</b>
<b>TOTAL APPLICATION OF FUNDS</b>	<b>1,075</b>	<b>961</b>	<b>1,064</b>	<b>1,212</b>	<b>1,302</b>	<b>1,418</b>	<b>1,538</b>	<b>1,628</b>

Source: Company, HSIE Research

**CASH FLOW STATEMENT**

(INR bn)	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
Reported PBT	142	91	(100)	205	90	285	329	311
Non-operating & EO Items	(26)	(24)	(15)	(19)	(21)	(56)	(71)	(28)
Interest Expenses	10	10	22	26	34	30	31	27
Depreciation	36	40	46	56	62	63	70	77
Working Capital Change	32	259	24	(25)	(41)	25	(8)	(9)
Tax Paid	(36)	(14)	(0)	(5)	(15)	(69)	(79)	(75)
<b>OPERATING CASH FLOW ( a )</b>	<b>158</b>	<b>363</b>	<b>(23)</b>	<b>238</b>	<b>109</b>	<b>278</b>	<b>270</b>	<b>303</b>
Capex	(138)	(148)	(115)	(114)	(105)	(132.87)	(110.87)	(100.88)
<i>Free Cash Flow (FCF)</i>	20	215	(139)	123	4	145	160	202
Investments	(6)	(38)	(50)	(58)	6	(7)	(3)	(3)
Non-operating Income	26	24	15	19	21	56	71	28
Others	0	(3)	(5)	(9)	(34)	(4)	(4)	(4)
<b>INVESTING CASH FLOW ( b )</b>	<b>(117)</b>	<b>(164)</b>	<b>(156)</b>	<b>(162)</b>	<b>(112)</b>	<b>(88)</b>	<b>(46)</b>	<b>(80)</b>
Debt Issuance/(Repaid)	33	23	221	(42)	36	(37)	(57)	(67)
Interest Expenses	(10)	(10)	(22)	(26)	(34)	(30)	(31)	(27)
<i>FCFE</i>	43	228	60	55	7	78	72	109
Share Capital Issuance	(1)	(0)	-	-	7	-	-	-
Dividend	(58)	(36)	-	(67)	(22)	(64)	(73)	(81)
Others	(1)	(179)	(18)	58	(6)	0	0	0
<b>FINANCING CASH FLOW ( c )</b>	<b>(37)</b>	<b>(202)</b>	<b>181</b>	<b>(77)</b>	<b>(19)</b>	<b>(131)</b>	<b>(160)</b>	<b>(174)</b>
<b>NET CASH FLOW (a+b+c)</b>	<b>4</b>	<b>(4)</b>	<b>2</b>	<b>(2)</b>	<b>(21)</b>	<b>59</b>	<b>65</b>	<b>49</b>
EO Items, Others								
<b>Closing Cash &amp; Equivalents</b>	<b>60</b>	<b>56</b>	<b>58</b>	<b>57</b>	<b>35</b>	<b>94</b>	<b>159</b>	<b>208</b>

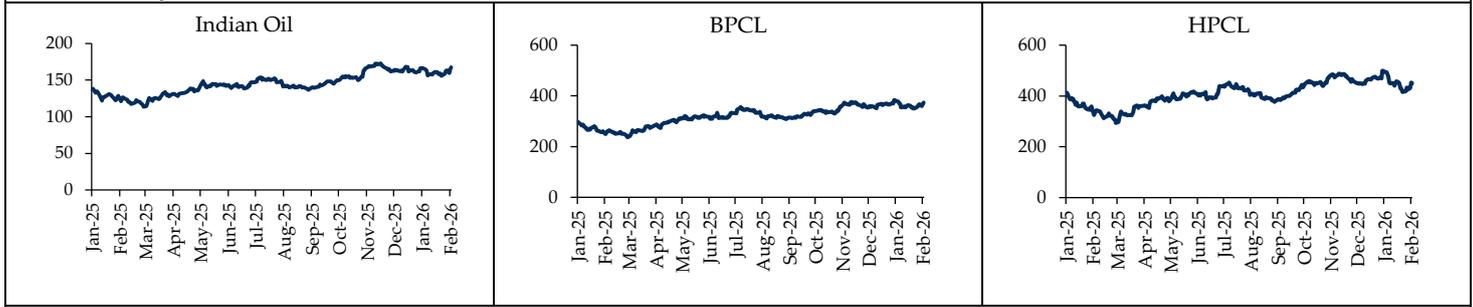
Source: Company, HSIE Research

**KEY RATIOS**

	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
<b>PROFITABILITY %</b>								
EBITDA Margin	6.9	2.9	(1.6)	5.7	3.8	7.1	7.5	7.7
EBIT Margin	5.3	1.8	(2.7)	4.5	2.4	5.6	6.0	6.1
APAT Margin	4.6	2.1	(1.6)	3.7	1.6	4.9	5.3	4.8
RoE	30.9	18.4	(19.0)	40.4	13.7	36.4	32.9	25.6
RoIC	12.4	8.6	(10.5)	19.1	7.8	18.0	18.9	19.3
RoCE	11.0	7.9	(5.3)	15.8	7.4	17.3	18.2	16.0
<b>EFFICIENCY</b>								
Tax Rate %	25.1	24.1	24.1	24.0	24.8	26.4	26.2	26.2
Fixed Asset Turnover (x)	3.5	4.5	4.8	3.9	3.5	3.2	3.1	3.0
Inventory (days)	45	37	24	29	32	29	29	29
Debtors (days)	11	7	6	8	10	9	9	9
Other Current Assets (days)	4	2	1	3	3	4	4	3
Payables (days)	32	30	20	26	28	26	26	26
Other Current Liab & Provns (days)	14	33	27	29	29	29	28	27
Cash Conversion Cycle (days)	13	(17)	(15)	(15)	(11)	(14)	(13)	(12)
Net Debt/EBITDA (x)	2.3	3.8	(8.5)	2.3	3.8	1.7	1.2	0.8
Net D/E	1.0	1.0	1.9	1.2	1.2	0.8	0.5	0.3
Interest Coverage	12.8	6.3	(5.4)	7.6	3.1	8.2	9.0	11.1
<b>PER SHARE DATA (Rs)</b>								
EPS	50.1	34.3	(32.8)	75.2	31.6	84.9	93.9	109.5
CEPS	67.1	53.1	(11.4)	101.5	60.6	114.2	126.8	145.4
Dividend	27.4	16.9	-	31.5	10.5	30.1	34.1	37.9
Book Value	178.9	194.5	151.6	220.5	240.3	310.6	392.0	463.6
<b>VALUATION</b>								
P/E (x)	9.0	13.2	(13.8)	6.0	14.3	5.3	4.8	4.1
P/Cash EPS (x)	6.7	8.5	(39.8)	4.5	7.5	4.0	3.6	3.1
P/BV (x)	2.5	2.3	3.0	2.1	1.9	1.5	1.2	1.0
EV/EBITDA (x)	8.3	13.3	(21.9)	6.2	9.6	4.9	4.0	3.4
EV/Revenue (x)	0.6	0.4	0.4	0.4	0.4	0.3	0.3	0.3
OCF/EV (%)	11.8	26.7	(1.5)	15.5	6.8	18.6	19.7	24.1
FCFF/EV (%)	1.5	15.8	(8.8)	8.0	0.3	9.7	11.6	16.1
FCFE/M Cap (%)	4.5	23.7	6.3	5.7	0.7	8.1	7.5	11.3
Dividend Yield (%)	6.0	3.7	-	7.0	2.3	6.6	7.5	8.4

Source: Company, HSIE Research

**Price history**



**Rating Criteria**

- BUY: >+15% return potential
- ADD: +5% to +15% return potential
- REDUCE: -10% to +5% return potential
- SELL: >10% Downside return potential

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HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066

Compliance Officer: Murli V Karkera Email: [complianceofficer@hdfcsec.com](mailto:complianceofficer@hdfcsec.com) Phone: (022) 3045 3600

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**HDFC Securities****Institutional Equities**

Unit No. 1602, 16th Floor, Tower A, Peninsula Business Park,

Senapati Bapat Marg, Lower Parel, Mumbai - 400 013

Board: +91-22-6171-7330 [www.hdfcsec.com](http://www.hdfcsec.com)