

Rationale:

- Hindustan Petroleum Corporation (HPCL) is a Fortune 500 company, with an annual turnover of Rs 2,862,500 Mn and Net income of Rs 26,372.6 Mn during FY 2019-20, HPCL has about 25% market-share in India among public-sector companies and a strong marketing infrastructure. Company has second largest market share in product pipelines in India with more than 3,370 km for transportation of petroleum products.
- HPCL operates two major refineries producing a wide variety of petroleum fuels and specialties, one in Mumbai (west coast) of 7.5 million metric tonnes per annum (MMTPA) capacity and the other in Vishakhapatnam, (east coast) with a capacity of 8.3 MMTPA. HPCL will add 6.7mmtpa refining capacity at Vizag by FY22. It will also add 2mmtpa capacity at Mumbai in the same fiscal to take capacity to 24.5mmtpa. The capacity addition will allow HPCL to participate meaningfully when the refining cycle turns up from the prevailing bottom.
- Company's focus on operational efficiency and cost optimization could help to increase profitability going forward. Company has significantly invested in expansion and upgradation of refineries and supply chain infrastructure with highest ever capital expenditure of over Rs 15,000 crore in FY20.
- HPCL commissioned 1,543 new retail outlets and expect 2000 outlets to open in FY21 and similarly in FY22. Total RO's currently stands at 18,019. Further, 77 new LPG dealership added in Q3FY21 reaching to 6,160. Company started dispensing CNG in 170 new outlets during Q3 which reached to a total of 650 outlets. Also HPCL now operates EV charging facility of 51 outlets.
- HPCL is doubling its existing capacity at in both refinery this will drive the earnings for its refinery business company also to benefit from higher throughput and GRM in FY22/23 along with stable marketing margin. We remain constructive on HPCL in crude price scenario as it will (1) Reduce Govt's intervention in auto fuel pricing, (2) Reduce working capital, (3) Put subsidy burden overhang to rest.
- We initiate our coverage on the company with a **BUY** rating and a target price of **₹293 per share**.

52 Week Low / High	150 / 259
Avg. Daily Volume (3M) ('000)	8,670
No. of Shares O/S (Mn.) / Mkt. Cap (₹Mn.)	1524/ 352,900
Shareholding (Promoters/Institutional/Others)	51.6% / 36.7% / 11.7%

(In ₹ mn)	FY-19	FY-20	FY-21E	FY-22E
Revenue	2,754,906	2,690,915	2,238,012	2,417,693
PAT	66,906	26,387	54,804	63,860
EPS (₹)	43.9	17.3	36.0	41.9
P/E	5.5	13.9	6.7	5.8
P/B	1.2	1.2	1.0	0.9
ROE	22.0%	8.5%	15.1%	14.9%

Source: Company, Estimates. Note: Prices are as on 18-Mar-21

Price Performance (Mar'20=100)

Rationale:

- Bharat Petroleum Corporation Limited (BPCL) is a leading player in the Indian petroleum industry with operations in both refining and marketing segments. India's Leading Oil and Gas Company with presence across the Hydrocarbon Value Chain. BPCL is a leading Player with a Diversified product portfolio and a well-established Marketing and Distribution network. Normally BPCL's refining margins have exhibited less volatility compared to the other oil marketing companies.
- BPCL also offers full range of automotive engine, gear oils, transmission oils, speciality oils and greases. It also provides Aviation Turbine fuel (ATF) to its airline customers. Its LPG business unit "Bharatgas" has presence in 83 million households with 6110 LPG distributors spread across the country.
- BPCL has two refineries at Mumbai and Kochi with a capacity of 12 Million Metric Tonnes Per Annum (MMTPA) and 7.5 MMTPA for refining crude oil. Its subsidiary at Numaligarh has capacity of 3 MMTPA.
- The company has raised capex guidance to Rs90bn in FY21 of which Rs 20bn is for refinery, Rs 8bn for petchem and Rs 36bn for marketing & depot expansion; of which, Rs 57bn have already been spent. Company has also guided capex of Rs 100bn for FY22. Further, it expects Mozambique to commence production from H2CY24 while BPCL expects its share to reach 1mmt by 2026.
- The government's stake sale to private/foreign players would unlock real value of BPCL and could trigger rerating of the company as valuation of its refining and marketing assets could get re-aligned to global peers. Additionally, the recent recovery in petroleum consumption, higher marketing margin, and lower interest cost are likely to lead to sharp recovery in earnings over FY2021E-FY2022E.
- We believe OMCs economic moat is widening led by (1) scope for meaningful increase in marketing margin and hence profitability, (2) slower ramp-up by private marketers, (3) high volume growth aided by expected GDP boost and (4) improving balance sheet with increasing cash flow.
- We initiate our coverage on the company with a **BUY** rating and a target price of **₹512 per share**.

Research Team

52 Week Low / High	252 / 482
Avg. Daily Volume (3M) ('000)	12,540
No. of Shares O/S (Mn.) / Mkt. Cap (₹Mn.)	1.967 / 926,050
Shareholding (Promoters/Institutional/Others)	53% / 31.7% / 15.3%

(In ₹ mn)	FY-19	FY-20	FY-21E	FY-22E
Revenue	2,982,256	2,845,719	2,397,286	2,612,929
PAT	78,023	30,554	63,826	85,894
EPS (₹)	39.7	15.5	32.5	46.6
P/E	10.8	27.5	13.2	9.2
P/B	1.2	1.3	1.2	0.9
ROE	20.1%	8.4%	14.9%	16.7%

Source: Company, Estimates. Note: Prices are as on 18-Mar-21

Price Performance (Mar'20=100)



Rationale:

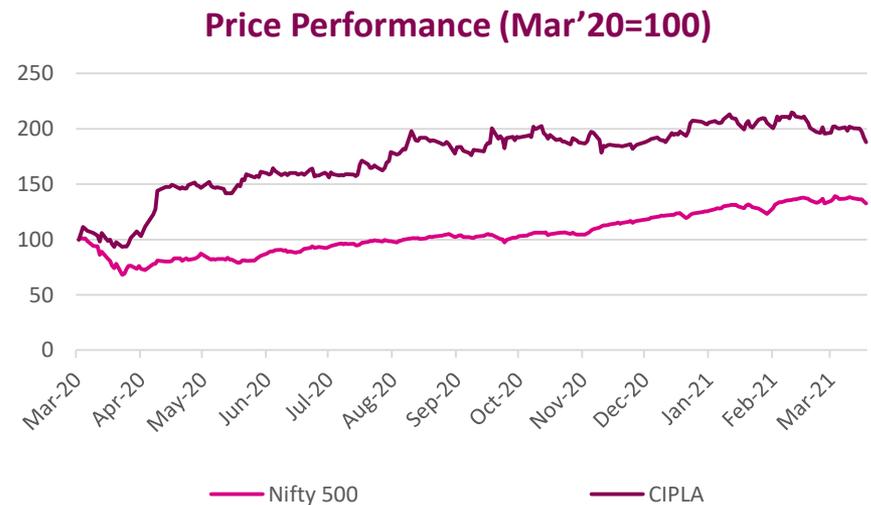
- ❑ Established in 1935, Cipla is a global pharmaceutical company focused on responsible and sustainable growth of complex generics and deepening portfolio in India, South Africa and North America, as well as key regulated and emerging markets. Its strength in respiratory, anti-retroviral, urology, cardio, anti-infective & CNS as well as other key therapeutic segments is well-known.
- ❑ The company has 46 manufacturing sites around the world producing 50+ dosage forms and 1,500+ products using cutting-edge technology platforms to cater to its 80+ markets. Cipla is ranked third largest in pharma in India, 3rd largest in the pharma private market in South Africa and is among the most dispensed generic players in the US.
- ❑ The company's revenue is well diversified; revenue contribution during the FY20 from various markets was as follows - India 39%, North America 23%, South Africa 18%, Emerging Markets 9% , Europe 5% & API 4% .
- ❑ In Q3-FY21, the company has benefitted from strong demand, sustained cost optimisation and operational excellence. The company reported 18% YoY growth in revenue in during the quarter with an EBITDA margin of 24.8%.
- ❑ The company's India business reported 22% growth YoY making it the 6th consecutive quarter of double-digit growth in prescription business and consumer brands. North America continues to scale-up and reported revenue growth of 6% YoY contributed by traction in Abuterol and new launches. South Africa performance in-line with a revenue growth of 6% YoY being the fastest growing among top 5 corporations in South Africa private market. Emerging markets, Europe and API reported 46%, 28% and 18% YoY growth respectively.
- ❑ The company has a strong balance sheet and robust free cash flow generation, it repaid \$137 million InvaGen (Subsidiary) loan one year ahead of schedule and repaid ₹300 crores working capital loan in india udring the quarter. The company had total abbreviated new drug application (ANDA) portfolio and pipeling of 250 as on 31st December 2020.
- ❑ Given the company's market beating growth in large branded and unbranded generic franchises of India, South Africa and consumer wellness franchise along with future key launches in US complex generics. We initiate our coverage on CIPLA with **BUY** rating with a target price of **₹949 per share**.

Research Team

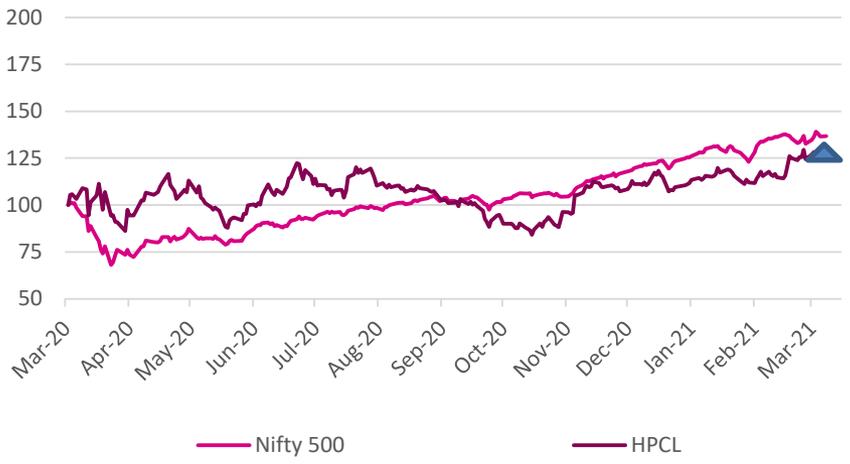
52 Week Low / High	363.85 / 878.55
Avg. Daily Volume (3M) ('000)	5028.78
No. of Shares O/S (Mn.) / Mkt. Cap (₹Mn.)	806.46 / 608,877
Shareholding (Promoters/Institutional/Others)	36.7% /40.05% / 23.25%

(In ₹ mn)	FY-19	FY-20	FY-21E	FY-22E
Net Sales	163,624	171,320	193,849	208,882
EBITDA	28,682	31,061	45,138	47,887
EBITDA Margin	17.5%	18.1%	23.2%	22.9%
PAT	15,096	15,470	25,288	27,353
PAT Margin	9.2%	9.0%	13.0%	13.09%
EPS (₹)	18.96	19.18	24.35	25.16
P/E (x)	39.82	39.36	31.00	30.00

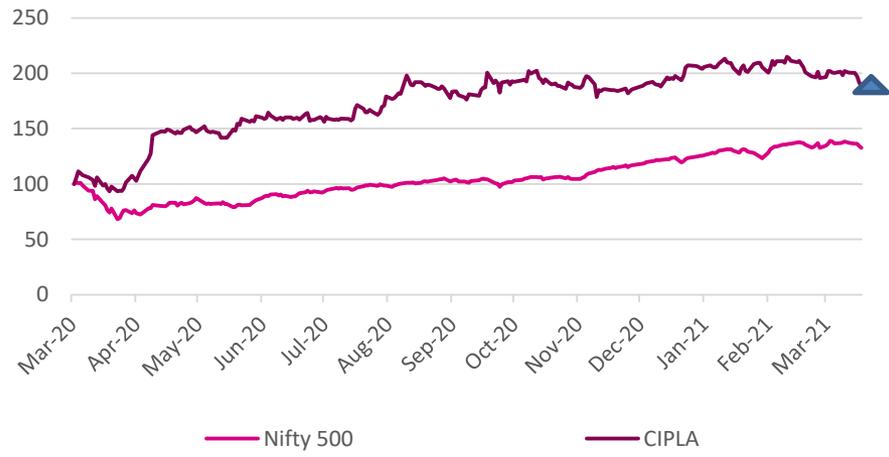
Source: Company, Consensus Estimates. Note: Prices are as on 18-Mar-21



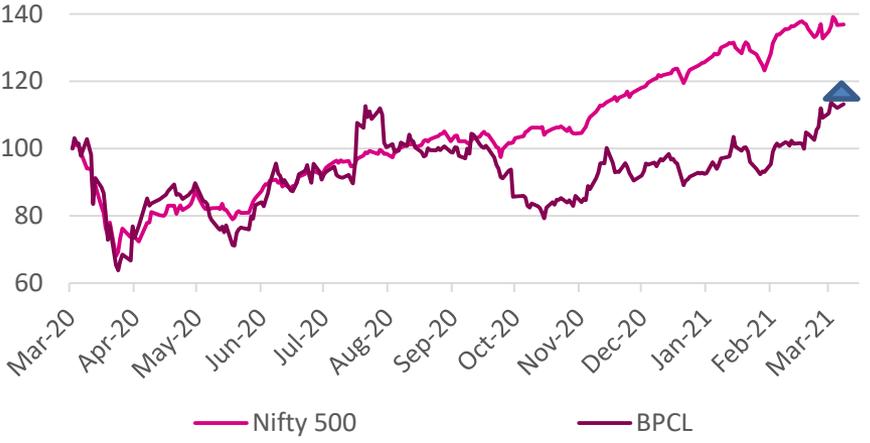
HPCL rating history & price chart



CIPLA rating history & price chart



BPCL rating history & price chart



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