"Hindustan Petroleum Corporation Limited

Q3 FY'24 Earning Conference Call"

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MODERATOR: **MR. VARATHARAJAN SIVASANKARAN -- ANTIQUE STOCK BROKING.**

Moderator: Ladies and gentlemen, good day, and welcome to the HPCL Q3 FY '24 Earnings Conference Call hosted by Antique Stock Broking. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Varatharajan Sivasankaran from Antique Stock Broking. Thank you, and over to you, sir.

Varatharajan S. Thanks, Rio. Good evening, everyone. I would like to welcome all the participants and the management of Hindustan Petroleum Corporation to this call. We have with us today Mr. Pushp Kumar Joshi, Chairman and Managing Director; Mr. Rajneesh Narang, Director, Finance; Mr. S. Bharathan, Director Refineries; Mr. K. Vinod, ED, Corporate Finance; and Mr. Lokesh Chhabra, GM, Corporate Finance from HPCL team. A warm welcome to everyone.

I'd like to hand over the call to HPCL management for their initial remarks and then followed by a Q&A.

Pushp Joshi: Thank you, Varatharajan.

Varatharajan S.: The floor is yours, sir.

Pushp Joshi: Thank you very much. I am Pushp Joshi. First of all, a very good evening to all of you. And let me begin by thanking all of you for participating in this call. I have with me our Director of Finance and Director Refineries with me. Initially, I would like to give you a small brief, and thereafter, we will spend time in answering your queries or any feedback or comments which are there, we would address that. So once again, friends, a very good evening.

I would like to cover my introductory talk in 3 facets. First facet, I would like to talk about our Q3 results. Second would be that, what is our guidance for Q4 and also what are our -- what is our outlook for the next financial year. So, these 3 facets and while I talk about these 3 facets, I would also weave in the significant developments which has taken place. The material facts also, I would like to share with you.

Now coming back, the Q3 performance, which at the outset I would say it's a kind of blip, we should look at that way because this has happened because of 3 factors. One factor, which is a planned factor, which was our planned maintenance shutdown at Visakhapatnam refinery for our CDU, Crude distillation unit number 2, which we had taken a planned maintenance shutdown for 55 days.

Second, as we had shared earlier that we have commissioned our FCHCU, that is our hydrocracker which converts VGO into diesel. That is already commissioned, and that is under stabilization. So that was going on.

So, there were quarterly related specific factors which were there, which has impinged on my Q3 results. The other 2 factors were, one was that there was because of the fluctuations in the crude prices, there was a inventory loss. The cracks had sobered down. And third was that on some of the marketing products which we market, we had-suppressed margin. Now this, as I said, that this was mainly due to the specific factors, which are short-term factors.

If we look at Q4 now, Q4, already the first month of Q4 has been relatively stable and very good for us. We are looking forward to have a good Q4. And our guidance is that we would be ending the year with a refining throughput of over 22 metric million tons. Our marketing sales would touch something like 44 or point something, it will touch that.

The significant thing in this quarter is that we have already incorporated our planned wholly owned subsidiary for green business that is already operational. And we, when we close this financial year, we would have made a progress in our green business on that JV.

We had also talked about earlier our plans for value unlocking in our lubricant business. And I'm happy to share with you that we have substantially progressed on that. We have onboarded an international consultant to advise us on the execution strategy for our plan of demerger or our plan of unlocking the value. Demerger would come subsequently, unlocking the value on lubes. And in next 8 to 10 weeks, we would have a very firm execution plan in place for unlocking the value on lubricant business.

In Q4, another significant thing which I would like to talk about is that when we look at our 9 months performance, our 9-month performance as far as our marketing is concerned, we have gained market share in all the products. In fact, significantly, I would like to mention that in the aviation business, while the market grew about 10% to 11%, our growth has been more than 25%.

Similarly, in other products also, we have gained market share. So, this gives me a good base going forward. Similarly, in refinery, if I see, that both my refineries in the 9-month period has done more than 100% of their capacity. There has been reduction in fuel and loss. There has been improvement in distillate yields. So therefore, the momentum is going to continue as far as my physical performance is there.

Now once my hydrocracker at Vizag stabilizes, it is going to give me additional products. Also, the CDU, revamped CDU-2, which is which the shutdown has been completed, that will operate at full capacity. In fact, in Visakhapatnam refinery, currently we are touching almost 42 million -- 42 TMT per day, between 40 to 42 TMT per day, which actually on a year-on-year basis, if you see, it corresponds to more than 13.5 million tons over the year.

Similarly, on the bottom upgradation at Vizag refinery, the RUF unit, I am happy to share with you that in next 6 to 8 weeks, we would be completing the construction and erection activities. And thereafter, in the first quarter of the next year, we will start our mechanical completion process on the bottoms upgradation unit. As we had mentioned that, that bottom upgradation unit would result in improvement of my distillate yield of more than 10%. So that benefit will start accruing to us in the next financial year.

Next financial year, the crude procurement plan which we make, we have already made a crude procurement plan for more than 25 MMT in the next year. Marketing also, we are going to cross 45 million tons of sales in next year.

As far as Rajasthan refinery progress is concerned, we have substantially progressed on that. We have commissioned a few units already in Rajasthan refinery, which are for the utilities, which are for the air and things like that. So that commissioning process also has happened.

On the physical front of progress of Rajasthan refinery, we have reached around 75% of physical completion, and that is in place. And the progress that progress there is on track. Another significant thing which I wanted to share with you was that as far as our debt levels are concerned, we have improved our situation. Last year, we were something like INR 64,000 crores was our debt. Now as we speak, we have come down below INR 50,000 crores.

And this year, we have already done about INR 10,300 crores of capex, and all this capex was done through our internal resource generation. We have not increased our debt level. And this capex is going to give me results in the next year and the years coming forward.

We are very confident that whatever guidance we had given for future that in Singapore conference also, we have talked about our guidance. We are very confident of achieving that, and we will be going forward on those lines.

Now as far as refinery GRMs are concerned, we continue to maintain our superior delta over the Singapore about $3.50 more than Singapore, and we will continue doing that. Going forward, we are looking at improving that further because as I said, our distillate yield has improved. Our fuel and loss is stabilized. And our hydrocracker unit also is stabilized. It has already seen 3 months of operation and such complex unit, stabilization takes time. So, it is going on.

These are the few things which I wanted to mention as far as my introductory talk is concerned. We will be too happy to take all the questions, comments and whatever details you wish us to share, we would like to do that. We have also-- you would have noted that we have declared interim -- interim is the operative word here, interim dividend of 150%. So that also I wanted to share with you.

So now I'm -- I would request if Director Finance, Director Refinery, they have to add anything or we can go to your queries and comments. And during that process, we will answer, and they will also add in if any additional information is required. Thank you very much.

Moderator: The first question is from the line of Vivekanand Subbaraman from AMBIT Private Limited.

Vivekanand Subbaraman: Can you explain to us the disruption that is happening in the Red Sea currently and the challenge that the sector is facing in importing crude oil and impact, if any, on the business? And what do you expect there? That's question one.

And the second one is, could you give us some sense of the inventory fluctuations that happened in the current quarter, both on the refining and the product side?

Pushp Joshi: Thank you, Subbaraman. See, the first issue about the Red Sea disruption, now what happens is that my crude, which is the term crude, that has not got impacted by this. Second, as far as the spot, which is concerned, I've been utilizing opportunity crude for that. And the opportunity crude, we have not seen any disruption so far on my crude thing.

In fact, I've already tied up on my crude requirement up to this financial year end. And all that terms are in place right now. So, on crude, we are not seeing disruption as of now. This is definitely impacted the freight rates, and freight rates have travelled a lot, northward in that. But my spot crude procurement is always on a [DAP] basis.

So as far as supply is concerned, I am quite confident that supply requirement are being met. We also have to see that how the situation unfolds in next few weeks, basis that we will have to take a call. But as far as my crude procurement side is concerned, I'm already in a comfortable situation up to March and first 2 weeks of April.

Regarding inventory fluctuation, now while we will share the details, the top line which I want to mention is that my at my Visakhapatnam refinery because the voyage time is longer. Normally, there is a 2 months delta between my procurement and the product coming to the market.

Now there any downward trend in the crude results into a severe impact as far as my Vizag refinery is concerned because there what happens is that, I would have bought the crude at X price. But when I process and bring the product in the market, it has already suffered that kind of inventory loss.

So, Vizag, the inventory loss is extenuated because of fall in crude, because of the voyage time and normally M plus 2 is my product cycle there. I would request our Director Finance to share some more details on this with you. Thank you.

Rajneesh Narang: Yeah. Good evening, everyone. I'll just give you an insight as to how the crude price has behaved. Like if I take the benchmark Brent crude prices, the Brent crude prices in August were around $86.22 a barrel. In September, they increased to $94 a barrel. In October, it came down to $91.05 a barrel. November, it came down further to $77.91 a barrel. And in January, again, it is $79.21 a barrel.

So, if you see the trend as regards the quarter is concerned, that is October to December, there is a fall from $91 to almost $77.91 a barrel. That is primarily the one which has brought in the inventory losses and the inventory losses, which we suffered on that account in our refinery was almost INR 700 crores to INR 750 crores.

Vivekanand Subbaraman: Okay. Sir, just a couple of small follow-ups. On the first issue of the Red Sea shipment and the disruption there, does this mean -- since you mentioned that you have already sourced crude on term contracts till first half of April 2024, does this mean that even shipments from new locations like Russia are tied up and are coming to you? Or has that been any impact on any particular source of crude?

Pushp Joshi: Yes, Subbaraman. When I said that I tied up already for my crude, it is both term and spot. I mean those opportunity crude cargoes also. So that I have tied up. And right now, we are not experiencing any kind of disruption there because what is happening is that, this Red Sea voyage thing is impacting other cargoes.

It has not impacted the crude cargoes as far as we were concerned with it or we were connected with it. And this tying up the crude is for both term as well as spot. Now spot crude also have tied up, up to March end, as I mentioned to you.

Moderator: The next question is from Probal Sen from ICICI Securities.

Probal Sen: On the first point that you mentioned when you -- during the briefing about the factors that impacted results. You mentioned that other than the inventory loss, there were some marketing products with suppressed margins. Just wanted to get some sense why you think that, that is transitory and when you will actually see that margins are evolving? And if you can mention some of the key products that actually saw a margin drop in this quarter?

Pushp Joshi: Yes. Thank you, Mr. Sen. As I mentioned, see basically, we had suppressed kind of margins on HSD, whereas the other products not have suppressed margins. And in this, there are 2 facets. One aspect is that my internal sufficiency, HSD because internal sufficiency when I'm commissioning my unit at my refineries what will happen is, my dependence on standalone refinery would come down going forward.

So there, it is the kind of suppressed margin can be taken care of with the full basket of my GRMs as well as my RTP and my own marketing margins. So that would be a comforting factor.

On that basis, I was saying that this may not be a long-term impact on the margins, marketing margins. But apart from this, there is no other product where we have suffered that kind of suppressed margin in this quarter.

Probal Sen: Right. Sir, just as a follow-up as a readthrough from the INR 700-odd crores that was mentioned as a sort of a tentative inventory impact in the refining business. Is it fair to assume that there was an inventory impact for the marketing segment as well to a certain extent? And if you can quantify that exclusively?

Rajneesh Narang: They were not -- there was no impact on the marketing front but primarily it was in the crude side.

Probal Sen: Last question from my side, sir. In terms of both the expanded capacity at Vizag as well as the 9 million ton capacity at Rajasthan, what would be the overall petrochemical output? I believe you have mentioned about 2.4 million tons out of the 9 million tons could be actually directly converted to petchem? And how much polypropylene are we adding as part of the Vizag expansion?

Management: Yes. You are right in telling that Rajasthan refinery will make almost 2.4 million metric ton of petrochemicals, which is -- which will be 26% and going to be highest in such an integrated complex. In Vizag refinery, we are not making polypropylene in Vizag refinery. Mainly the expansion is targeted towards bottom upgradation as well fuels expansion.

Probal Sen: Understood, sir. And last question from my side, capex for Q4 and FY '25, if we can get a guidance, how much we plan?

Rajneesh Narang: Yes. As of Q3, we have spent almost INR 10,350 crores. We will be ending this year by around INR 14,000-odd crores. The next year also, it will be in a similar range of INR 14,000 crores to INR 15,000 crores.

Moderator: The next question is from Amit Rustagi from UBS.

Amit Rustagi: Sir, could you give us for Vizag refinery, what are the steps left in completing the residual upgrade? And like in terms of timelines, what are the timelines we're looking in 2024? And when do you think that the product slate will stabilize after the residual upgrade and when will we start to see the GRMs on the new capacity?

Pushp Joshi: Yes. Amit, we have to look at in 2 parts, this. Number one is that the expansion activities have been completed. The units are operating. That is my CDU-4, my hydrocracker units. So, they are already operating, and CDU-4 is completely stabilized. Hydrocracker in the last quarter, which we had commissioned, is now nearing stabilization.

Now as far as bottom upgradation is concerned, as I mentioned, in the next 6 to 8 weeks, we would have completed our construction activities and our erection activities. What we are looking forward to is that from the first quarter of the next year, we would start our process of mechanical completion. And in these complex hydrocarbon units, normally that completion and commissioning takes anywhere between 4 to 6 months.

So, it would be safe to say that by the third quarter of the next year, we would derive the full potential of our bottom upgradation along with our expanded capacity. Our expanded capacity would accrue to us right now. That has started accruing to us right now.

And therefore, that is why our next year, plan for crude slate for both the refineries is Vizag, we have planned something like 15 million tons, basis that we are making our crude procurement strategy. And for Mumbai, the capacity is 9.5 million tons. We are planning to do something like 10 million tons. So that is how our crude strategy has been planned.

Amit Rustagi: Okay. Great, sir. And sir, similar level of update granularly, if you can give us for Rajasthan Refinery that when we'll start to see the fuels coming out and when we'll start to see the, maybe petchem coming out of that refinery in like a year 1, year 2, year 3 from here?

Pushp Joshi: Yes. While we will share the details, Amit, with you, but the top line is like this, that as I mentioned in Rajasthan refinery, a few units we have already commissioned. We have completed the refining portion that is our CDU and the refinery-related thing. That completion level is in 90s, the percentage completion is in various stages between early 90s to mid-90s.

So, we are looking at mechanical completion somewhere during the mid of calendar year '25. And 3 months hence or 3 to 4 months from there, we would be getting our refining products from refinery products. That is our MS, HSD and LPG by the end of the calendar year.

And petrochemical would happen after that. So petrochemical, we're looking at in the next financial year. But refining products, I'm trying to see that we can get by December '24, we should be able to get our petrol, diesel, initially the LPG, but subsequently, the LPG will go in petchem. So that is how we're looking at...

Amit Rustagi: December '24 or December '25? Because you just mentioned that mechanical completion will be completed by somewhere in mid of '25.

Pushp Joshi: No, no, no. Mid-'24, I said. Mid-'24. I'm sorry. Let me clarify. As I said that more than 90% of the units of refinery, they have achieved completion. So, it is mid-'24, I'm looking forward to starting the mechanical completion process. And after mechanical completion process, as I said, it takes me a quarter to 4 months to have the commissioning of the refinery facility. So, it will be December '24 we are looking for getting our refining products out of HRRL.

Rajneesh Narang: You'll get the product in Q3.

Amit Rustagi: In Q3, basically. Both now Vizag and HRRL as we speak.

Pushp Joshi: Yes.

Amit Rustagi: And sir, last question is on the debt levels. So where do we see our debt declining from INR50,000 crores now to maybe if we go March '25? Do we see any substantial reduction? Or do we see it remaining flattish from here? What are the levels we are looking at?

Pushp Joshi: See, Amit, we are already at -- I mean my DE ratio is about 1.25. And because other capex plan, which are there, I would also request Director, Finance to share with you the exact numbers. But as I said that our debt has come down from INR 64,517 crores to sub-50 in December '23. Rajneesh, you would like to share?

Rajneesh Narang: See, the way we look at it is, we will -- whatever capex we are going to do, which was likely to be in the range of INR 15,000 crores. We will not be adding on to our debt levels. So virtually over a period of say next 3 to 5 years, the debt level will further come down by -- and it would be in the range of INR 35,000 crores to INR 40,000 crores.

Amit Rustagi: Okay. But in the next 1 year, the debt might remain flat, basically from here?

Rajneesh Narang: No, marginally, it may move INR 3,000 crores to INR 4,000 crores here and there.

Amit Rustagi: Okay. Okay. Great, sir. Sir...

Rajneesh Narang: Assuming that there is no equity in case we get an equity contribution from government and all, then that -- these things will change. Let's see how it happens.

Amit Rustagi: Okay. Okay. Got it, sir. And sir, once again, congratulations for a very strong performance in the first 9 months of the year.

Rajneesh Narang: Thank you.

Pushp Joshi: Thank you, Mr. Rustagi.

Moderator: The next question is from Yogesh Patil from Dolat Capital.

Yogesh Patil: Sir, as you said, the term contract, term crude supplies are not impacted due to Red Sea disruptions. So, we wanted to know how much percentage of crude sourcing is a term? And how much is the spot sourcing?

Pushp Joshi: Okay. Yogesh, see, in the crude procurement, one is that the share of domestic crude. Now I get roughly 3.5 million tons from ONGC, the remaining I'm importing. And on that, roughly 44% -- 45% I term it with the NOC. And remaining, I keep it for spot basically for low-sulphur crude and these kind of grades.

Now last year, we had done something like a 30% opportunity crude from basically Russian markets, Russian crude. So, 30% is that. So, term crude definitely is not going to get impacted.

As I mentioned in the first query response that as far as my both term and spot crude is concerned up to March or mid-April, I've already tied up, and I don't expect supply disruptions. There may be a price fluctuation, but supply disruption, I am not expecting right now.

As the situation emerges in future, we will have to see because basically, what will happen is that supply would continue. The crude will have to flow from different routes. So that would impact the price. Supply is not going to get impacted.

Yogesh Patil: Okay. Sir, next question is again related to Russian crude. How much of Russian crude HPCL refineries process during the quarter? And if possible can you share the quantum of discount we are getting on the Russian crude?

Pushp Joshi: I'm afraid I will not be able to comment on the discount portion. I can share with you that what happens is that, out of my 2 refineries, Mumbai refinery is because it's a lube refinery, and I get ONGC crude. So, I don't need any other Russian crude and things like that in Mumbai refinery.

For Visakhapatnam refinery, I can process Russian crude. And as long as I'm getting opportunity crude on discounts, we are finalizing those deals. As I mentioned that we are buying all our crude on DAP basis that is delivered at port basis. So that takes into account a straight discount. Also, it takes into account the freight element which is there. So, suffice to say that as long as I'm getting a discount, it is commercially viable for me. I am utilizing it to the maximum of my refining capacity.

Yogesh Patil: So, sir, that share was close to 30%, 35% for the Vizag refinery during the quarter or it was lower end?

Pushp Joshi: Yes, that's a fair number.

Rajneesh Narang: So almost, more than 30% of our imported crude we are taking from Russia.

Yogesh Patil: Okay. So, sir, last question. In the last conference call, you mentioned that the Chhara LNG terminal is physically completed. And any update on the long-term LNG contracts and tie-ups with the off-takers? And also, if you can update us on the gas pipeline connectivity to the Chhara terminal?

Pushp Joshi: Yes, Yogesh. Thanks for asking this question. In fact, I've not covered in my introductory talk on that. So, what has happened is, as I mentioned, that we had mechanically completed that. The work on breakwater connectivity is in full swing. We've already planned commissioning cargo. That progress is on.

As far as pipeline connectivity to -- from Chhara to Gundala which connects to the gas grid, that pipeline is nearing completion. And we are expecting that in the next 4 to 5 weeks or maybe less than that, that pipeline connected would happen.

For the term contract for terming long-term gas procurement, we had floated a term sheet. We have received a very enthusiastic response from more than 13 players. And that process, evaluation process is on right now. That procurement process, the RFPs and the clarification and things like that, that is on right now.

Yogesh Patil: Sir, any update...

Pushp Joshi: Rajneesh also wants to add one thing. Please hold on, Yogesh, yes.

Rajneesh Narang: As regards to the capacity booking is concerned, on that also, we are in dialogue with several prospective suppliers who are interested in booking capacity over there. So as and when we achieve that, we'll definitely let you know. But right now, I can only say that we have got a very enthusiastic response. And maybe in the near future, we'll let you know the latest update on it.

Yogesh Patil: Last question from my side. On the lubricant business, how much EBITDA contribution we generally get from the lubricant side? Any rough numbers, if you could share, that would be helpful on annual basis.

Rajneesh Narang: It's almost INR 1,000 crores.

Moderator: The next question is from Sabri Hazarika from Emkay Global.

Sabri Hazarika: So, I have 2 questions. The first one is relating to your numbers. So, if I see Q3 versus Q2, so I think Q3 -- I mean Q3, you mentioned that diesel was one of the products where the margins were like weaker. But even then, if we do a normal back calculation of the marketing earnings and if we try to find out other product margins, that has also like come down.

So, was there anything specific like the shutdown in refinery leading to more procurement of third-party products, etcetera, something of that sort, which has led to suppressed marketing margins in nonsensitive items also? And was there any LPG element to it actually in terms of marketing margin?

Rajneesh Narang: No. Broadly, our chairman has already covered. If you see the -- do the gap analysis between the Q3 and the Q2 numbers, there are primarily 3 contributors. One is the inventory loss on the crude. That is because of the declining crude trend.

Then there is a -- marketing margins had -- was suppressed. And third is the -- if you compare with respect to the inventory gains, there were higher inventory gains in marketing in the previous quarter vis-a-vis the current quarter.

Sabri Hazarika: So, there's no marketing inventory gain or loss, nothing in the current quarter. So, it's like almost near 0 but...

Rajneesh Narang: Last quarter, the gains were higher. That's what I meant.

Sabri Hazarika: This quarter, were there gains or nothing at all?

Rajneesh Narang: Yes, marginal. They were very marginal.

Sabri Hazarika: Marginal gains. And you are saying that suppressed marketing margins is only because of diesel, not because of other products?

Rajneesh Narang: Yes, yes. Very right.

Sabri Hazarika: Okay. Fair enough. And secondly, your other expenditure and all, so I know it's like the commissioning which is going on right now.

Rajneesh Narang: See just to supplement on the -- as regard the products are concerned, I'll just give you an additional input as to how the product prices have behaved in the period -- in the Q2, like in case of -- in June, the HSD prices were $93 a barrel. In August, they -- sorry.

In June, the HSD prices were $87.58 a barrel. In July, they went to $93.20 a barrel, in August to $101.93 a barrel and September, $104.54 a barrel. So that -- this was the abrupt increase in the product prices in the Q2. That is where we got higher inventory gains in the marketing front in Q2, which was not there in the current quarter.

Sabri Hazarika: Again, product import, can you give that number Q2 versus Q3 by HPCL?

Rajneesh Narang: We don't have -- we primarily import crude. And...

Pushp Joshi: We have not imported any HSD in the last whole 9 months. So, we have not imported any HSD.

Rajneesh Narang: Only LPG is imported.

Pushp Joshi: LPG because anyway, self-sufficiency level. So, LPG we import.

Sabri Hazarika: And this LPG margin getting compressed, was there any impact from there? Or you covered it from the buffer?

Rajneesh Narang: You are right. Buffer is sufficient.

Sabri Hazarika: Okay. So, there is basically normalized margins only on LPG, even though the actual prices have gone up because the buffer had already enough of previous quarters.

Pushp Joshi: We still have buffer in the buffer.

Sabri Hazarika: Right, right. And secondly, other expenditure run rate, INR 4,600 crores. So, this is now a new normal? Or was there any one-off relating to pre-commissioning and all?

Rajneesh Narang: Can you just repeat the question, please?

Sabri Hazarika: Your other expenditure. So, I know at times, it has always -- it has gone up to around INR 4,500 crores kind of run rate. So, although it has fluctuated, I mean, Q2, it fell to INR 3,500 crores. So, is there anything to read to it? Or it's like normal line of business?

Rajneesh Narang: No, these are normal line, except there are certain expenditures which come up. Sometimes that is a CSR expenditure or a PMUY-related expenditures. So those are the ones which are there. Otherwise, more or less normalized.

Moderator: The next question is from Sumit Arora from Helios.

Sumit Arora: So, sir, firstly, I mean, I would like to congratulate you. It's been a very healthy and a very stellar performance for the 9 months of INR95. And it's very, very heartening to see that we are very, very much back on the growth track.

So, sir, I just wanted to touch base a bit because, unfortunately, people do react to QoQ, quarter-on-quarter earnings, which honestly, I don't think it's the best way to look at it -- any refining marketing company.

So, sir, just assuming that if Q3 was -- I mean, if Q4 is a normalized quarter, which you have said that Q3 was a blip. And assuming that we come back with a fairly resilient quarter, which was impacted by inventory and also your shutdown, which you had of 52 days, so sir, assuming that we end up doing about INR15, INR20 EPS and we end the year about INR120.

And being the 50th year for HPCL, which I heartily congratulate you. So can we expect as investors that HPCL can pay out a fairly high dividend being at 50th year because HPCL has always been known to reward shareholders very, very handsomely. You are the only company who's done a buyback from market. You're the only company who's done several bonuses, had a consistent dividend payout ratio of nearly 40%, 50%. So, sir, can we assume that?

So, my first question to you is that assuming we end the year with a fairly strong Q4, which you highlighted, so can we expect being the 50th year of our operations are very healthy? Or rather -- a very, 45% to 50% dividend payout ratio is my first question to you, sir.

My second question to you, sir, can you quantify, I mean, the shutdown which you had of 52 days? So, can we assume that the financial impacts of that was how much? Was it like INR 500 crores, INR 800 crores? I mean was there -- I mean if you can understand then we'll exactly know what happened and how it happened.

Sir, my third question is basically on our presentation which we have uploaded to the stock exchanges in the month of November or December. We have basically also spoken about our EBITDA going up about 2.5x.

So then, sir, back calculating on that, we get an EBITDA of nearly $5 billion, which is about nearly INR 40,000 crores, INR 45,000 crores EBITDA, which can then translate into a profit after tax of about INR 21,000 crores, INR 22,000 crores is roughly what I back calculated. So, sir, can you help understand also the road map because since, I mean, we are looking at such a sharp increase in EBITDA and profitability, if you can just share some road map on that because Barmer refinery also you have mentioned that you said a $21 GRM. So, understanding on that road map will also be very helpful.

And sir, just one last thing before I end. You spoke about the lubricant part. Sir, because the thing is that today, I mean, our market cap of about INR 50,000 crores, INR 60,000 crores does not capture that because we are nearly 42% of the lubricant or 44% of lubricant market, which does about INR 1,000 crores PAT.

So, if some more value unlocking thought process could happen on the lubricant part then that itself is worth 1/3 of our market cap. So, if you can just share some more thoughts on that, it will be very helpful, sir.

Rajneesh Narang: Yes. Thank you, Sumit. First of all, let me reassure you that whatever we have stated as regards to our investor presentation is concerned in Singapore or what we have hosted it is on our website, we still stand by those numbers. And rightly so, we are moving in that direction, both in terms of physical numbers as well as creating the assets, both in terms of either quality as well as the quantity of the assets which we have.

Now coming to your impacts on account of the shutdown in the -- one of the units in Visakh refinery and the stabilization of the FCHCU unit. See, the FCHC unit is the one which improves the distillate yield.

So, during this period, when the stabilization is on, we do not tend to derive the full benefit. And when the -- as regards to the second one, a 55-day shutdown of CDU unit during that period, there is no virtually refinery throughput for that.

So, both put together is the one which has given the dent to us and just -- and let the Q1 come. I think the Visakh refinery will come back, bounce back and give us these desired numbers.

And that part, we have -- the Chairman has already covered that we'll be crossing 22 million metric tons in terms of the refinery throughput is concerned.

And in terms of the marketing volumes also, we'll be crossing almost 44 million metric tons. So once the physicals are in place, the rest all becomes the derived number. So, I'm sure that the Q4 -- would be in that -- because of these factors, one, which would be healthy. And as of the period which has passed by, that is -- as on add-on date, it has been good for us.

So, in terms of the lubes, what was your question as regards to the lubes is concerned?

Sumit Arora: So, sir, my question on the lubricant was that we are really about 43%, 44% of the lubricant market share. And if you can -- and you mentioned that we make about INR1,000 crores on the marketing side -- on the lubricant side. So, sir, some road map on the demerger because, I mean, it's a very valuable business, right?

And effectively, the way our peers are trading in the lubricant, [15, 20] is definitely attainable for the lubricant part, which effectively means that the lubricant part could itself be worth about INR 15,000 crores to INR 20,000 crores.

So effectively -- so it's a very valuable part. So, our road map on that, on demerger, value unlocking it would be very value accretive for HPCL as well, right?

Rajneesh Narang: Correct. Exactly looking into that itself, we have onboarded a consultant of repute, international consultant of repute so that we can drive the right strategies to see that we maximize the value. So, I can only assure you that, yes, whatever value we derive definitely in terms of the acquisition in our value and all will be passed on to the shareholders. And definitely, you can look forward to it in the near future.

Sumit Arora: Sure, sir. Just one point which I asked upon, being our 50th year of our glorious operation, I hope that, that, sir, investors are rewarded very handsomely with a 50% dividend payout ratio is my humble request to the management because HPCL has always rewarded shareholders very handsomely. So, I really would request you, the management to please consider.

And sir, honestly, just one suggestion because I like public sector universe. Today, sir, HPCL is one of the cheapest stocks in the public sector universe trading up [4 PE]. I really humbly would also request management to once again consider a very strong buyback because it will definitely -- it will be very valuable to HPCL and all its stakeholders, sir.

Pushp Joshi: Noted, Sumit. Noted.

Moderator: We take the next question from the line of Nitin Tiwari from PhillipCapital.

Nitin Tiwari: I hope I'm audible, sir. Sir, before I put my question, sir there is just a bookkeeping question and clarification. So, you mentioned that Rajasthan Refinery is 90% complete. So where are we in terms of our expenditures as far as Rajasthan. So, I suppose we had set out was about INR 75,000 crores of investment in the refinery. So how far have we spent? This is what I wanted to understand.

Rajneesh Narang: What was said was that on the -- there are primarily 2 major segments there. One is the refinery unit, and the second is the petchem unit.

What Chairman was telling that the CDU and other units of the refinery part have crossed this 90% number. And the Petchem is following it. Now as regards to the capital expenditure, which has actually been incurred is more than INR 40,000 crores, which has been incurred. And -- but as regards to the commitment is concerned, the commitment is more than INR 68,000 crores.

Nitin Tiwari: Understood. Sir, my question is actually related to pricing. So, since the price was deregulated, we have seen an era of -- for tax revision, then daily revisions, and now we are seeing segment pricing for some time now. So, I just wanted to understand that how should we look at this space?

I mean is this sort of a static price is what the new normal is or what are your thoughts on that? Wanted to understand that?

And secondly, I mean, correlated to that, so when we procure products from other refineries, are we procuring that on import parity business or that separate parity basis when you procure from, say, HMEL or any other refineries?

Rajneesh Narang: As regards the pricing is concerned, that is the end pricing is concerned, we are only looking at a more stable environment whereby the price fluctuations normalize. Price fluctuations are normalized. Currently, if you see 1 day, the prices are going down by $5 a barrel, the second day, they are jumping up.

In that environment, it is not right to pass on or reduce the prices on a daily basis in such a significant manner. We're only looking at that more rationality arrive as regard to the international pricing, crude pricing is concerned, then we will take a call as regards to the end pricing is concerned. And regards with settlement between the oil companies for product procurement and all, it is an industry defined formula on settlement terms.

Nitin Tiwari: So that's what I wanted to understand, sir, that formula is import parity or trade parity?

Rajneesh Narang: It is import parity for the others -- as many products and for MS and HSD it is trade parity.

Nitin Tiwari: Understood, sir. Sir, I don't want to sound argumentative, but crude prices have always been volatile. And we have been revising our prices on a daily basis until like there's -- the price got static couple of quarters back. So, I mean, crude volatility is not new to the market is what I was trying to put across.

So essentially, are we moving towards, say, like that prices are going to remain static at these levels? Or would there be revision moving ahead? So how do we understand it?

Rajneesh Narang: So, I agree with you regarding that the crude prices are volatile, yes. But the level of volatility is one which I'm referring to. The current environment, the level of volatility is quite high, is the one which we are looking at. And when it reaches a narrow range, we'll definitely look at it.

Moderator: Next question is from Narendra from RoboCapital.

Narendra: Most of my questions have been answered, just a couple more. Regarding your comments on the GRM delta of $3.50 that we are currently having, and we are trying to improve on that. So, what gives us the confidence about this improvement? And say, after all the upgradation and all the new capacity comes in, what will be this delta? Any ballpark number?

And a related question would be regarding the Venezuela oil coming into the market. So, have we any -- do we have any plans of importing from Venezuela? This is my first question.

Pushp Joshi: Narendra, as far as Venezuela crude is concerned, that our refineries right now, it is not optimal for us. So, we have not configured that in our crude procurement strategy because it's not optimal for us to process that kind of a crude because the characteristics of that crude are quite different. So, it doesn't suit me right now.

But that will improve the overall availability of the crude in the total basket. So that may have a positive impact.

Now as far as Singapore GRM versus our GRMs are concerned, we are always higher than Singapore GRM in the last 9 months, as I mentioned, by about $3, $3.50. But also, one factor is to be kept in account is that for MS, those kind of prices are taken for HSD. The AG prices are taken, but it is suffice to show that our GRMs will only move in north direction because of both our capacity enhancement and also our quality because bottom upgradation and conversion from hydrocracker VGO to diesel, so this will definitely improve on the north side. That is what is our prediction and working.

Narendra: Okay. Good to know. And regarding the Rajasthan Refinery, once it starts, what would be the opex per barrel there?

S Bharathan: Question about the opex for Rajasthan Refinery? It is -- nothing going to be -- it will be like any other refinery. There is no unique -- and typically, any opex is $2 to $3 per barrel. It will be in the same range.

Narendra: Okay. Okay. Got it. Congratulations on a good 9 months, and all the best for the future.

Pushp Joshi: Thank you, Narendra.

Moderator: The next question is from Kirtan Mehta from BOB Capital Markets. There seems to be no response from the line of Mr. Mehta. The next question is from S. Ramesh from Nirmal Bang Equities.

S. Ramesh: So, if you were to look at your petrochemical business, your HMEL already expanding into the petrochemical cracker. So how is the performance? Are they breaking even and making profits?

And secondly, how do you ensure that the Rajasthan petrochemical business, which is pretty much close in terms of proximity to the market doesn't cannibalize your HMEL markets?

How do you integrate the 2 petrochemical businesses and ensure that you're able to generate positive earnings and cash flow? So that's on -- in terms of your business strategy, how does it work?

And secondly, when do you see the Rajasthan Refinery breaking even at EBITDA level? Would it happen anywhere from next year third quarter? Or would you expect that to happen by FY '26?

Rajneesh Narang: Coming to your question regarding HMEL petchem, yes, HMEL have, in this month, achieved 100% capacity utilization. So, while they had commenced, the commissioning of the petchem facility was done somewhere in June or July. They have been -- in January, they have reached 100% capacity level.

And yes, up to December, they have not been able to make money as regards the petchem is concerned, but they are expected to break even in the last quarter of this current financial year.

Now as regards to the Rajasthan Refinery and the HMEL, we'll work out a strategy so that we don't cannibalize each other. And there are even other players in the market where we have sufficient ground to play. So that is an area which we have already worked -- we are working with them. And definitely, we'll not be cannibalizing each other volume.

S. Ramesh: And in terms of the breakeven for the Rajasthan Refinery, when do you see that happen?

Rajneesh Narang: I will let you know as to once the phase is done. And the final details, I'll share separately with you.

S. Ramesh: Okay. So just one thought on the green energy business. So, what is the kind of road map for that in terms of the capital expenditure and the kind of capacities it will create? Whether it's green hydrogen or green ammonia, what is the thought process now? Any numbers you can share?

Rajneesh Narang: Initially, the focus would be on the biofuels as well solar and the hybrid capacities over there. For the next year, that is FY'25, we are targeting a capex of almost INR 2,500 crores to INR 3,000 crores in that. And over a period of 5 years, it will be around INR 15,000 to INR 20,000 crores, which we'd be spending over there.

So, the focus would be to see that the greening of the HPCL and the other things are taken care of through this vehicle and also simultaneously look at other emerging opportunities in the green space.

S. Ramesh: Sir, just to understand the economics of the investments in green energy, as it's a compulsion, what are the kind of pricing you're working with to arrive at a certain return on investment? At least over the next 4, 5 years, what are the kind of IRR you're expecting? And what is the underlying assumption on pricing? I think that is something which has to evolve.

Pushp Joshi: Ramesh, it is not strictly compulsion because as far as solar is concerned, as far as biofuels are concerned, like ethanol and CBG, now we evaluate every project which comes to us with our hurdle rate of IRR. That is about 15%.

So, we are evaluating with that. So, it's not out of pure compulsion. In fact, in ethanol, as you may be aware that our blending percentage is above 11%. And that blending, which is done in MS, that definitely gives us superior returns.

As far as CBG also is concerned, CBG also, we will be integrating that with the gas and utilizing that in our CGD and in other areas. Solar also, one is that our own captive requirement for our refineries for that, it is always evaluated that way. And only if there's a positive margin, we are getting into that business. So, it is not compulsion. There's no mandate as far as hydrogen is concerned right now. And we are not getting into hydrogen straightaway in this renewable and green energy company.

As our Director of Finance explained, our initial thrust will be on solar, on wind and solar that is combined and also on biofuels. Biofuels since we have got both our R&D efforts and things like that, which has come as well as our ethanol. So, we will be getting into that, and this will be always with a positive margin.

S. Ramesh: Sir, if I may squeeze in last doubt on your city gas distribution business in your standalone geographic area, what is the progress there? What is the kind of capex commitment you have to make over the next 3, 4 years? And when do you see that business adding to your EBITDA and profits?

Rajneesh Narang: City gas, which are already is there with us in the project phase, that's the third or fourth year, we have already turned positive as regard to the EBITDA is concerned in those areas.

And as regards to the capex part is concerned, every year, we are spending almost INR 2,500 crores to INR 3,000 crores. And that would continue for the next period till the minimum work program is not completed.

Moderator: The next question is from Praneetha from Morgan Stanley.

Mayank: Sir, this is Mayank, sorry. Just a couple of questions. Firstly, on HMEL, can you just talk about the performance on the refining margin front on HMEL as well as was there any inventory losses that you booked for the quarter there as well?

And the second question was more related to Vizag refinery if there are any more shutdowns planned for fiscal '25? Or do you think -- you have guided for our volumes, but just wanted to check if there are any planned shutdowns on any of the refineries for next year?

Rajneesh Narang: Thank you. Thank you, Mayank. As regard HMEL is concerned, during this quarter, they had processed 3.29 million metric tons of crude. Cumulatively, for the 9 months, they have processed 9.81 million metric tons of crude.

Now as regards to the GRM is concerned, the cumulative GRM is almost $17 a barrel, and the GRM for the quarter is almost $14 a barrel. And as regards to any turnaround or shutdown in Visakh Refinery is concerned, there is no planned shutdown in '25 or in this Q4 quarter.

Mayank: And sir, this $14 per barrel is post the, I think, inventory loss on refinery there as well in HMEL? Or this is excluding that?

Rajneesh Narang: Yes, Reported GRM...

Mayank: And I'm assuming that there would be a similar kind of inventory loss per barrel like you have $2 per barrel, so it would be similar there as well, correct?

Rajneesh Narang: Yes, yes.

Mayank: For the quarter?

Rajneesh Narang: Yes, yes.

Mayank: Got it. And sir, Mumbai refinery as well has no shutdowns planned for the rest of fiscal '25 and next quarter, correct?

S Bharathan: Mumbai refinery, one of our smaller distillation unit will take for a planned regular outage. And next year, there is no shutdown planned.

Moderator: Take that as the last question. I would now like to hand the conference back to Mr. Varatharajan Sivasankaran for closing comments.

Varatharajan S.: Taking all the questions and giving us the opportunity to host the call. And thanks to all the participants for taking time out to participate in the call. Sir, if you have any closing comments, I hand over the floor to you.

Pushp Joshi: No, I just want to thank you for this. And as we said that if further details are required, anybody is free to contact us. We would love to share all the details which are required. And we are open for any kind of further dialogue or discussion, anybody wants to have with us, we are available. We can fix an appointment. And it will be our endeavour to share all the details which are required with you -- for -- bye all of you. Thank you very much.

Rajneesh Narang: Thank you, and Happy Republic Day to all. Thank you.

Moderator: Thank you very much. On behalf of Antique Stock Broking, that concludes the conference. Thank you for joining us. Ladies and gentlemen, you may now disconnect your lines.