

# Bharat Petroleum Corp.

## BUY

### Sailing Through a Storm

#### Summary

BPCL Q4FY20 result was impacted negatively by higher inventory losses (Rs49 bn) and higher forex loss (Rs12 bn). Adjusting to that, result is largely in line with consensus estimates. Reported GRM came at US\$0.5/bbl whereas core GRM came at US\$7.7/bbl owing to higher discount and better diesel cracks. Demand for petroleum products also improved 67% MoM in May'20 and now just 30% YoY down. Also, refinery is now running at 83% utilization which was 63% and 77% in Apr-May'2020. We expect GRM of US\$2/bbl and US\$4/bbl in FY21 and FY22 respectively while marketing margin to remain stable on a YoY basis. We forecast EBITDA/PAT of Rs92/34 bn in FY21 and Rs127/56 bn in FY22 respectively. We resume our coverage with a BUY rating and TP of Rs418.

#### Key Highlights and Investment Rationale

##### Core GRM surprised positively; higher inventory losses dent profits

The company's core GRM came at US\$7.7/bbl (reported US\$0.5/bbl) after adjusting to inventory losses owing to discount on crude oil. BPCL source nearly 26% of crude requirement from Saudi Arabia, 17% from Iraq and 15% from Abu Dhabi which were offering discounts upto US\$5-8/bbl.

##### Rising refinery utilization on improvement in demand

Refinery is now running at 83% utilization post partial opening up of lockdown, which was 63% and 77% in Apr and May 2020 respectively. Product sales also grew 67% MoM in May 2020 and were 30% lower than May 2019. We expect utilization to decline by 12% in FY21 before seeing full utilization in FY22.

##### Capex guidance cut; guidance for stable marketing margin for FY21

The company has cut the capex guidance to Rs80 bn for FY21 from Rs120 bn earlier owing to weak demand environment. Also, it has given stable marketing margin guidance on petrol and diesel compared to previous year.

##### Resume coverage with BUY and TP of Rs418

The stock is trading at an EV/EBITDA of 8x and P/E multiple of 12.2x on FY22E. We resume our coverage on the stock with a TP of Rs418. Keep BUY.

## Q4FY20 Result Review

TP	Rs418
CMP	Rs357
Potential upside / downside	+17%
Previous Rating	BUY

#### V/s Consensus

EPS (Rs)	FY21E	FY22E
IDBI Capital	17.1	28.6
Consensus	35.9	44.2
% difference	(52.4)	(35.2)

#### Shareholding Pattern (%)

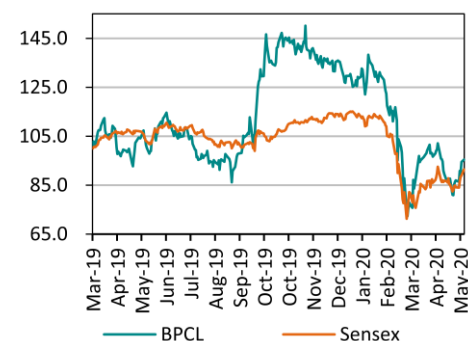
Promoters	53.0
FII	12.3
DII	19.6
Public	15.1

#### Price Performance (%)

	-1m	-3m	-12m
Absolute	(3.6)	(15.9)	(14.1)
Rel to Sensex	(4.3)	(3.9)	1.5

Key Stock Data	
Bloomberg / Reuters	BPCL IN / BPCL.BO
Sector	Oil & Gas
Shares o/s (mn)	1,967
Market cap. (Rs mn)	774,966
Market cap. (US\$ mn)	11,189
3-m daily avg Trd value (Rs mn)	1,086.1
52-week high / low	Rs 550 / 252
Sensex / Nifty	33,981 / 10,029

#### Relative to Sensex (%)



#### Financial snapshot

Year	FY2018	FY2019	FY2020	FY2021E	FY2022E
Revenue	2,355,518	2,960,370	2,831,330	1,940,757	2,821,932
EBITDA	116,776	126,646	83,017	92,047	127,240
EBITDA (%)	5.0	4.3	2.9	4.7	4.5
Adj. PAT	79,193	71,320	35,479	33,647	56,302
EPS (Rs)	40.3	36.3	18.0	17.1	28.6
EPS Growth (%)	(3.4)	(9.9)	(50.3)	(5.2)	67.3
PE (x)	8.7	9.6	19.3	20.4	12.2
Dividend Yield (%)	6.2	5.4	4.7	1.7	2.9
EV/EBITDA (x)	7.4	7.3	12.9	11.0	8.0
RoE (%)	24.8	20.1	10.1	9.8	15.3
RoCE (%)	14.8	13.7	5.7	5.7	9.2

Source: Company; IDBI Capital Research

**BPCL Q4FY20 conference-call highlights:**

- Capex for the quarter was Rs48 bn and Rs110.6 bn for FY20. Capex for FY21 has been reduced from Rs 120 bn to Rs 80-85 bn, wherein few essential new small projects will be considered and for some large projects less money will be spent due to poor conducive environment of migrant labor issue, PDPP, licensing issue etc.
- Of the inventory loss of Rs 49 bn, marketing loss was Rs 19.4bn and Refining loss was Rs 30 bn. Inventory loss also includes the COVID-19 related write-down of Rs 10.8 bn, of which Rs 6.8bn was for marketing and Rs 4 bn was for refining segment.
- Crude discounts in Apr-May 2021 were \$5-7/bbl while it came to premium of US\$2/bbl in June 2020. However, due to negative cracks in petrol and diesel, refinery unit is not making profit at current prevailing rates.
- Gross Marketing Margins on petrol and diesel were almost similar to previous year and likely to remain stable.
- Investing heavily on new retail outlets and infrastructure and have put up 1,447 new outlets in FY20.
- NRL stake sale in in process, decision will be taken by cabinet. It is unlikely that BPCL will be a part of NRL expansion process. Also, disinvestment should not be over before dec'2020.
- Refining Utilization is currently at 83% of capacity and in July it would depend on the status of lockdown.
- We had crude reserves of 1mmt which has been increased to 1.5mmt taking advantage of low crude oil price in Apr-May'2020.
- We have invested in Capex and in Opex for transition from BS4 to BS6. We will not be passing on full impact/expenditure of higher cost of BS6 to consumers but passed on partially and will try to cover all expenditure.
- Outstanding from government: started with the year with receiving Rs 88 bn and as of 31<sup>st</sup> March 2020, it came down to Rs 48 bn.
- **Financials:** For BORL, GRM is at \$2.5/bbl for Q4FY20 and \$5.6/bbl for FY20. Throughput is 2,123TMT in Q4FY20 and ~8,000TMT for FY20 while net loss of Rs 8 bn in FY20.
- For NRL, GRM is at \$2.9/bbl for Q4FY20 and \$8/bbl for FY20 excluding benefits. PAT came at Rs 15.3 bn for FY20.
- MAT credit outstanding is Rs 720 crs, once that is taken we convert it into new tax regime.
- Import of crude oil import mix is 26% from Saudi Arabia, 17% from Iraq and 14-15% from Abu Dhabi. Trend will be similar in the future.

**Exhibit 1: Quarterly performance**

(Rs mn)

	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	% Chg YoY	% Chg QoQ
<b>Net sales</b>	<b>739,904</b>	<b>763,179</b>	<b>643,408</b>	<b>747,328</b>	<b>689,914</b>	<b>(6.8)</b>	<b>(7.7)</b>
Expenditure	694,613	741,381	615,791	719,335	683,992	(1.5)	(4.9)
<b>EBITDA</b>	<b>45,291</b>	<b>21,799</b>	<b>27,617</b>	<b>27,993</b>	<b>5,923</b>	<b>(86.9)</b>	<b>(78.8)</b>
<b>EBITDA margin (%)</b>	<b>6.1</b>	<b>2.9</b>	<b>4.3</b>	<b>3.7</b>	<b>0.9</b>	<b>(526)</b>	<b>(289)</b>
Depreciation	9,149	9,141	9,523	9,731	9,474	3.6	(2.6)
<b>EBIT</b>	<b>36,142</b>	<b>12,658</b>	<b>18,094</b>	<b>18,262</b>	<b>(3,551)</b>	-	-
Interest	3,526	4,524	6,388	5,121	5,786	64.1	13.0
Other income	10,576	5,070	8,713	5,148	11,568	9.4	124.7
Fx gains/(losses)	2,759	315	(3,868)	(959)	(12,111)	-	-
<b>PBT (before exceptional items)</b>	<b>45,951</b>	<b>13,518</b>	<b>16,551</b>	<b>17,330</b>	<b>(9,880)</b>	<b>(121.5)</b>	<b>(157.0)</b>
Exceptional items	--	--	--	--	(10,808)	-	-
<b>PBT (before exceptional items)</b>	<b>45,951</b>	<b>13,518</b>	<b>16,551</b>	<b>17,330</b>	<b>(20,689)</b>	-	-
Tax	14,702	2,767	(533)	4,724	(7,079)	-	-
Reported PAT	31,249	10,751	17,084	12,606	(13,610)	-	-
Adjustments	--	--	--	--	7,242	-	-
<b>Adjusted PAT</b>	<b>31,249</b>	<b>10,751</b>	<b>17,084</b>	<b>12,606</b>	<b>(6,369)</b>	-	-
Adjusted EPS (Rs)	15.9	5.5	8.7	6.4	(3.2)	-	-
Crude throughput (MMT)	8.2	7.5	7.7	8.4	8.4	2.2	(0.2)
Product sales (MMT)	11.7	11.3	10.8	12.3	11.2	(3.5)	(8.9)
Reported GRM (US\$/bbl)	2.7	2.8	3.4	3.2	0.5	(80.3)	(83.3)
Core GRM (US\$/bbl)	2.5	3.7	3.8	2.2	7.7	201.7	250.1
Gross Debt level (Rs mn)	290,990	306,470	317,560	301,340	478,190	64.3	58.7
Oil bonds (Rs mn)	51,620	51,620	51,620	51,540	50,290	(2.6)	(2.4)
Cash & Cash eq (Rs mn)	2,155	2,160	1,147	961	1,373	(36.3)	42.9
Net Debt (Rs mn)	237,215	252,690	264,793	248,839	426,527	79.8	71.4

Source: Company; IDBI Capital Research

## Financial Summary

Profit & Loss Account					(Rs mn)
Year-end: March	FY19	FY20	FY21E	FY22E	
<b>Net sales</b>	<b>2,960,370</b>	<b>2,831,330</b>	<b>1,940,757</b>	<b>2,821,932</b>	
<i>growth (%)</i>	25.7	(4.4)	(31.5)	45.4	
Operating expenses	(2,846,104)	(2,760,813)	(1,861,835)	(2,708,473)	
<b>EBITDA</b>	<b>126,646</b>	<b>83,017</b>	<b>92,047</b>	<b>127,240</b>	
<i>growth (%)</i>	8.5	-34.5	10.9	38.2	
Depreciation	(31,893)	(37,869)	(44,797)	(50,278)	
<b>EBIT</b>	<b>94,754</b>	<b>45,148</b>	<b>47,250</b>	<b>76,962</b>	
Interest paid	(13,190)	(21,819)	(30,746)	(29,246)	
Other income	22,832	14,190	31,563	32,716	
<b>Pre-tax profit</b>	<b>104,396</b>	<b>26,710</b>	<b>48,067</b>	<b>80,432</b>	
Tax	(33,076)	122	(14,420)	(24,130)	
<i>Effective tax rate (%)</i>	31.7	(0.5)	30.0	30.0	
Minority Interest	-	-	-	-	
<b>Net profit</b>	<b>71,320</b>	<b>26,832</b>	<b>33,647</b>	<b>56,302</b>	
Exceptional items	-	(8,647)	-	-	
<b>Adjusted net profit</b>	<b>71,320</b>	<b>35,479</b>	<b>33,647</b>	<b>56,302</b>	
<i>growth (%)</i>	(9.9)	(50.3)	(5.2)	67.3	
<i>Shares o/s (mn nos)</i>	1,967	1,967	1,967	1,967	

Cash Flow Statement					(Rs mn)
Year-end: March	FY19	FY20	FY21E	FY22E	
Pre-tax profit	104,396	26,710	48,067	80,432	
Depreciation	31,893	37,869	44,797	50,278	
Tax paid	(20,711)	(2,010)	(16,573)	(26,304)	
Chg in working capital	(34,577)	15,399	(9,740)	21,760	
Other operating activities	(4,553)	(118,889)	86,072	(3,470)	
<b>Cash flow from operations (a)</b>	<b>76,449</b>	<b>(40,921)</b>	<b>152,623</b>	<b>122,696</b>	
Capital expenditure	(90,732)	(76,546)	(81,213)	(101,225)	
Chg in investments	(5,535)	(1,327)	(521)	(1,052)	
Other investing activities	-	-	-	-	
<b>Cash flow from investing (b)</b>	<b>(75,366)</b>	<b>(47,060)</b>	<b>(50,171)</b>	<b>(69,561)</b>	
Equity raised/(repaid)	-	-	-	-	
Debt raised/(repaid)	51,762	148,948	(50,000)	10,000	
Dividend (incl. tax)	(41,883)	(38,944)	(14,132)	(23,647)	
Chg in minorities	-	-	-	-	
Other financing activities	(10,888)	(21,819)	(30,746)	(29,246)	
<b>Cash flow from financing (c)</b>	<b>(1,009)</b>	<b>88,185</b>	<b>(94,877)</b>	<b>(42,893)</b>	
<b>Net chg in cash (a+b+c)</b>	<b>73</b>	<b>204</b>	<b>7,575</b>	<b>10,243</b>	

**Balance Sheet**

(Rs mn)

Year-end: March	FY19	FY20	FY21E	FY22E
Net fixed assets	535,539	664,558	612,872	662,594
Investments	124,711	121,257	122,470	123,695
Other non-curr assets	29,651	68,242	68,924	69,614
<b>Current assets</b>	<b>466,373</b>	<b>410,632</b>	<b>306,887</b>	<b>429,003</b>
Inventories	215,447	204,211	140,305	203,628
Sundry Debtors	66,707	51,643	35,482	51,496
Cash and Bank	954	1,158	8,733	18,975
Marketable Securities	50,759	52,085	52,606	53,658
Loans and advances	28,818	5,906	4,058	5,889
<b>Total assets</b>	<b>1,156,273</b>	<b>1,264,690</b>	<b>1,111,153</b>	<b>1,284,905</b>
<b>Shareholders' funds</b>	<b>367,377</b>	<b>332,144</b>	<b>351,659</b>	<b>384,315</b>
Share capital	19,669	19,669	19,669	19,669
Reserves & surplus	347,708	312,475	331,990	364,646
<b>Total Debt</b>	<b>290,993</b>	<b>439,941</b>	<b>389,941</b>	<b>399,941</b>
Secured loans	255,186	262,727	203,866	204,563
Unsecured loans	35,808	177,214	186,074	195,378
Other liabilities	80,193	79,771	78,493	77,234
<b>Curr Liab &amp; prov</b>	<b>417,709</b>	<b>412,834</b>	<b>291,061</b>	<b>423,416</b>
Current liabilities	417,709	412,834	291,061	423,416
Provisions	-	-	-	-
<b>Total liabilities</b>	<b>788,896</b>	<b>932,546</b>	<b>759,494</b>	<b>900,590</b>
<b>Total equity &amp; liabilities</b>	<b>1,156,273</b>	<b>1,264,690</b>	<b>1,111,153</b>	<b>1,284,905</b>
<b>Book Value (Rs)</b>	<b>187</b>	<b>169</b>	<b>179</b>	<b>195</b>

Source: Company; IDBI Capital Research

**Financial Ratios**

Year-end: March	FY19	FY20	FY21E	FY22E
Adj. EPS (Rs)	36.3	18.0	17.1	28.6
Adj EPS growth (%)	(9.9)	(50.3)	(5.2)	67.3
EBITDA margin (%)	4.3	2.9	4.7	4.5
Pre-tax margin (%)	3.5	0.9	2.5	2.9
ROE (%)	20.1	10.1	9.8	15.3
ROCE (%)	13.7	5.7	5.7	9.2
<b>Turnover &amp; Leverage ratios (x)</b>				
Asset turnover (x)	2.7	2.3	1.6	2.4
Leverage factor (x)	3.0	3.5	3.5	3.3
Net margin (%)	2.4	1.3	1.7	2.0
Net Debt/Equity (x)	0.7	1.2	0.9	0.9
<b>Working Capital &amp; Liquidity ratio</b>				
Inventory days	27	26	26	26
Receivable days	8	7	7	7
Payable days	22	17	19	19

**Valuation**

Year-end: March	FY19	FY20	FY21E	FY22E
PER (x)	9.6	19.3	20.4	12.2
Price / Book value (x)	1.9	2.1	2.0	1.8
PCE (x)	6.7	9.4	8.8	6.4
EV / Net sales (x)	0.3	0.4	0.5	0.4
EV / EBITDA (x)	7.3	12.9	11.0	8.0
Dividend Yield (%)	5.4	4.7	1.7	2.9



# Notes

Dealing

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**BUY:** Absolute return of 15% and above; **ACCUMULATE:** 5% to 15%; **HOLD:** Upto  $\pm 5\%$ ; **REDUCE:** -5% to -15%; **SELL:** -15% and below.

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