

# Bharat Petroleum Corp. ACCUMULATE

All eyes on divestment

## Summary

BPCL's Q3FY21 EBITDA/PAT was a strong beat to our forecast led by stronger than expected product sales volume, lower than expected employee expenses and significantly higher other income. Reported GRM came at US\$2.5/bbl owing to inventory gain of Rs5bn (US\$1.24/bbl) while core GRM stood at US\$1.23/bbl, in-line with our expectations. Domestic petroleum product sales volume improved 0.7% YoY to 11.1mmt. However, crude throughput declined 14% to 7.24mmt, below our estimates. Management indicated to close NRL divestment to a consortium of Oil India and Engineers India (Only bidder) by FY21. Further, it expects its marketing margin going forward to remain at the similar level of Q3FY21. We raise our estimates for FY21 and tweak our numbers for FY22/FY23 to factor in relatively lower marketing profit in FY22 and lower interest costs. We downgrade the stock to ACCUMULATE from earlier BUY with a revised TP of Rs445 (Rs412 earlier).

## Key Highlights and Investment Rationale

### Lower other expenses and significantly higher other income boosts bottom line

The company reported Rs 14.4bn of other income up 180% on a YoY basis. This was due to dividend income from Numaligarh Refinery worth Rs6.1bn. Other expenses fell by 5% on a year-on-year basis to Rs 39.3bn. Further interest expense declined sharply 51% YoY to Rs2.5 bn led by lower debt level and forex gains. We expect it's product sales volume to reach back to pre-covid levels from Q4FY21 and factor 2% volume growth in FY22.

### Raised capex guidance and NRL divestment soon

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. Management has hinted that NRL stake is expected to be completed by Mar '21 and will be done before BPCL divestment. Further, it expects Mozambique to commence production from H2CY24 while BPCL expects its share to reach 1mmt by 2026.

### TP revised to Rs445; Downgrade to ACCUMULATE from BUY

We expect GRM to improve from FY22 owing to depletion in global inventory levels and lower utilisation at US and European countries. Further, demand growth from MS and HSD to remain strong while BPCL continue to face pressure at ATF due to higher exposure in international flights. We are raising our TP to Rs445 while downgrading the stock to ACCUMULATE owing to sharp run-up in valuation since our last report.

## Q3FY21 Result Review

TP	Rs445
CMP	Rs419
Potential upside / downside	+6%
Previous Rating	BUY

### V/s Consensus

EPS (Rs)	FY21E	FY22E	FY23E
IDBI Capital	44.5	33.8	41.9
Consensus	36.2	39.5	47.4
% difference	22.8	(14.5)	(11.6)

### Shareholding Pattern (%)

Promoters	53.0
FII	11.6
DII	20.1
Public	15.3

### Price Performance (%)

	-1m	-3m	-12m
Absolute	4.9	15.9	(14.5)
Rel to Sensex	(0.3)	(6.6)	(39.3)

Key Stock Data	
Bloomberg / Reuters	BPCL IN / BPCL.BO
Sector	Oil & Gas
Shares o/s (mn)	2,169
Market cap. (Rs mn)	9,10,869
Market cap. (US\$ mn)	12,499
3-m daily avg Trd value (Rs mn)	1,640.8
52-week high / low	Rs 495 / 252
Sensex / Nifty	51,329 / 15,109

### Relative to Sensex (%)



### Financial snapshot

Year	FY19	FY20	FY21E	FY22E	FY23E
Revenue	2,960,370	2,831,330	2,261,438	2,680,957	3,320,553
EBITDA	126,646	83,017	146,655	121,402	146,518
EBITDA (%)	4.3	2.9	6.5	4.5	4.4
Adj. PAT	71,320	35,479	87,558	66,456	82,439
EPS (Rs)	36.3	18.0	44.5	33.8	41.9
EPS Growth (%)	(9.9)	(50.3)	146.8	(24.1)	24.1
PE (x)	11.4	22.9	9.3	12.2	9.9
Dividend Yield (%)	4.6	4.0	4.1	3.3	4.1
EV/EBITDA (x)	8.3	14.4	7.7	9.4	7.6
RoE (%)	20.1	10.1	24.7	16.9	19.1
RoCE (%)	13.7	5.7	12.6	8.8	10.7

Source: Company; IDBI Capital Research

**Q3FY21 conference-call highlights:**

- **Capex:** Company has revised its capex in FY21 from Rs 80bn to Rs 90bn (Rs 20bn for refinery, Rs 8bn for petchem and 36bn for marketing and depot expansion), of which Rs 57bn of capex has been done as of Dec '20. Planned capex for FY22 is around Rs 100bn (of which Rs 26bn for refinery, Rs 9.7bn for petchem and Rs 32bn for marketing and rest for BPRL and others).
- **Borrowings Outstanding:** As of Dec '20 it was Rs 246bn (excluding Rs 62bn of lease liability) which was reduced from Rs 278bn in Sept '20. Borrowing o/s as of FY20 was Rs 418bn.
- **New Outlets:** During the quarter company added 730 RO's and year to date company has added nearly 1,692. It has a plan to add a total of 2,000 Ro's in FY21. As of Dec '20 Total RO's were at 17,851. 527 RO's now have CNG dispensers.
- **NRL stake sale:** Company plans to sell NRL stake by Mar '21. Management has guided that it will be sold before BPCL stake sale. Interest has come from consortium of Oil India and Engineers India. BPCL currently holds 61.65% stake in NRL. Out of which 31.65% stake would be sold to Govt of Assam, as they have first right of refusal.
- **GRM:** In Q3, MS crack was Rs3.0 vs Rs 8.2/ltr and HSD crack was Rs 4.3/ltr vs Rs 15.4/ ltr in the same quarter last year.
- **Govt dues:** As of March '20 subsidy was around Rs 66bn which has come down to Rs 22bn as of Jan '21.
- **Mozambique LNG:** First gas delivery to consumers is expected to be done by H2FY24. Company guides of 1mmt of gas per year from 2026. It has customers for 2mmt of gas and is confident to reach 5mmt in next 5 years.
- **JV business:** For BORL, during the quarter GRM was \$2.14/bbl and reported a net loss of Rs2.1bn. For NRL, GRM was \$37/bbl and it reported net profit was Rs 8.3bn.
- **Petrochemicals:** Company expects to commission 2 out of total 3 PDPP plants by Mar '21 and remaining one by May '21. It doesn't expect a meaningful contribution to its bottom line in near term.
- **Inventories:** Crude inventory in Dec '20 was 1.9mmt and product inventory was 3mmt. Average crude cost for the quarter was ~\$53/bbl.
- **Misc:**
  - Other income includes Rs 6.12bn of dividends from NRL.
  - BGRL has been awarded 13 GA's and plans to spend capex of Rs 30bn over the next 8 years.
  - Other expenses are expected to be higher from Q4 as crude throughput going forward will improve.

**Exhibit 1: Actual vs Estimates**

(Rs mn)	Actual	Estimated	% Variance
Net sales	667,314	732,639	(8.9)
EBITDA	43,058	29,382	46.5
<i>EBITDA margin (%)</i>	6.5	4.0	244bps
Adj net income	30,587	15,327	99.6
FDEPS (Rs)	15.6	7.8	99.6

Source: Company; IDBI Capital Research

**Exhibit 2: Quarterly performance**

(Rs mn)

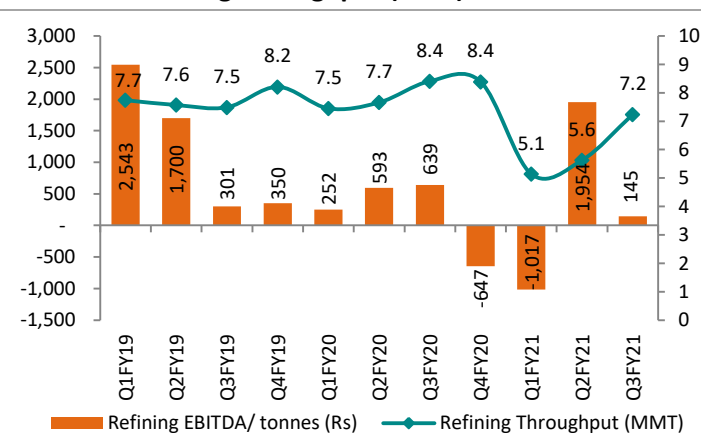
	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	% Chg YoY	% Chg QoQ
<b>Net sales</b>	<b>747,328</b>	<b>689,914</b>	<b>387,851</b>	<b>501,464</b>	<b>667,314</b>	<b>-11%</b>	<b>33%</b>
Expenditure	719,335	683,992	348,126	462,952	624,256	-13%	35%
<b>EBITDA</b>	<b>27,993</b>	<b>5,923</b>	<b>39,724</b>	<b>38,512</b>	<b>43,058</b>	<b>54%</b>	<b>12%</b>
<b>EBITDA margin (%)</b>	<b>3.7</b>	<b>0.9</b>	<b>10.2</b>	<b>7.7</b>	<b>6.5</b>	<b>72%</b>	<b>-16%</b>
Depreciation	9,731	9,474	9,959	9,888	9,936	2%	0%
<b>EBIT</b>	<b>18,262</b>	<b>(3,551)</b>	<b>29,766</b>	<b>28,624</b>	<b>33,122</b>	<b>81%</b>	<b>16%</b>
Interest	5,121	5,786	5,871	126	2,510	-51%	--
Other income	5,148	11,568	5,933	4,211	14,389	179%	242%
Fx gains/(losses)	(959)	(12,111)	(566)	1,515	756	-179%	-50%
<b>PBT (before exceptional items)</b>	<b>17,330</b>	<b>(9,880)</b>	<b>29,262</b>	<b>34,223</b>	<b>45,757</b>	<b>164%</b>	<b>34%</b>
Exceptional items	--	(10,808)	--	(1,246)	(4,195)	--	--
<b>PBT (before exceptional items)</b>	<b>17,330</b>	<b>(20,689)</b>	<b>29,262</b>	<b>32,978</b>	<b>41,562</b>	<b>140%</b>	<b>26%</b>
Tax	4,724	(7,079)	8,500	10,500	13,786	192%	31%
Reported PAT	12,606	(13,610)	20,762	22,478	27,776	120%	24%
Adjustments	--	7,242	--	834	2,811	--	--
<b>Adjusted PAT</b>	<b>12,606</b>	<b>(6,369)</b>	<b>20,762</b>	<b>23,312</b>	<b>30,587</b>	<b>143%</b>	<b>31%</b>
Adjusted EPS (Rs)	6.4	(3.2)	10.6	11.9	15.6	143%	31%
Crude throughput (MMT)	8.4	8.4	5.14	5.63	7.24	-14%	29%
Product sales (MMT)	12.3	11.2	8.32	9.22	11.35	-8%	23%
Reported GRM (US\$/bbl)	3.2	0.8	0.39	5.80	2.47	-24%	-57%
Core GRM (US\$/bbl)	2.19	7.44	1.93	1.54	1.23	-44%	-20%

Source: Company; IDBI Capital Research

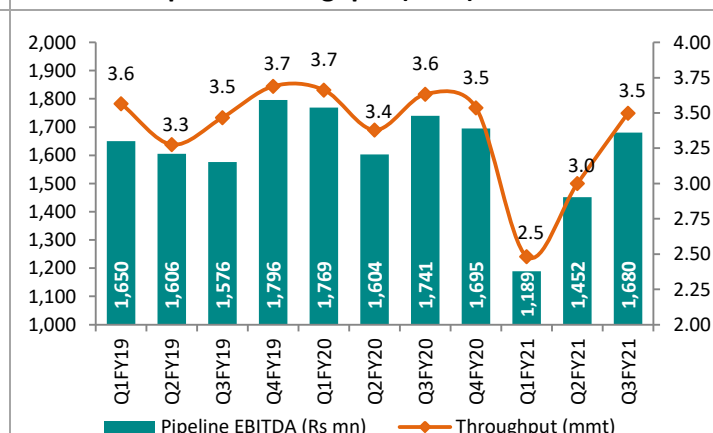
**Exhibit 3: Change in estimates**

Key parameters (Rs mn)	FY21E			FY22E			FY23E		
	Old	New	% Chg	Old	New	% Chg	Old	New	% Chg
Revenue	1,840,966	2,261,438	22.8	2,411,289	2,680,957	11.2	2,986,550	3,320,553	11.2
EBITDA	112,572	146,655	30.3	128,039	121,402	(5.2)	133,582	146,518	9.7
EBITDA margin (%)	6.1	6.5	37	5.3	4.5	(78)	4.5	4.4	(6)
Net profit	59,240	87,558	47.8	66,167	66,456	0.4	68,450	82,439	20.4
FDEPS (Rs)	30.1	44.5	47.8	33.6	33.8	0.4	34.8	41.9	20.4

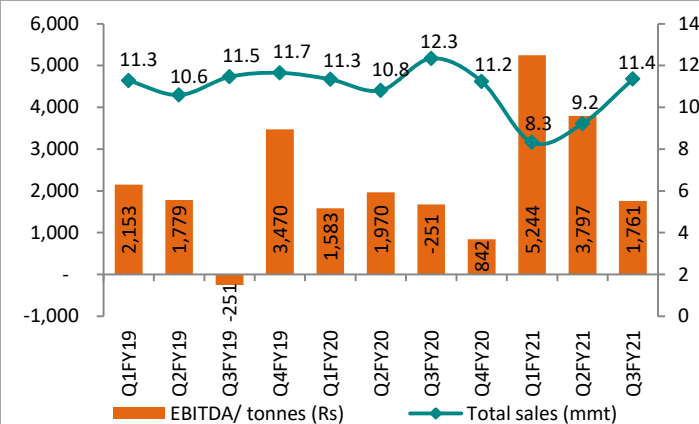
Source: IDBI Capital Research

**Exhibit 4: Refining Throughput (mmt)**


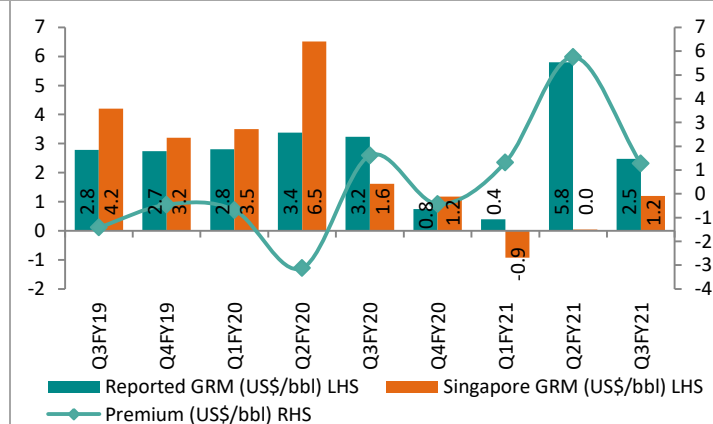
Source: Company; IDBI Capital Research

**Exhibit 5: Pipeline Throughput (mmt)**


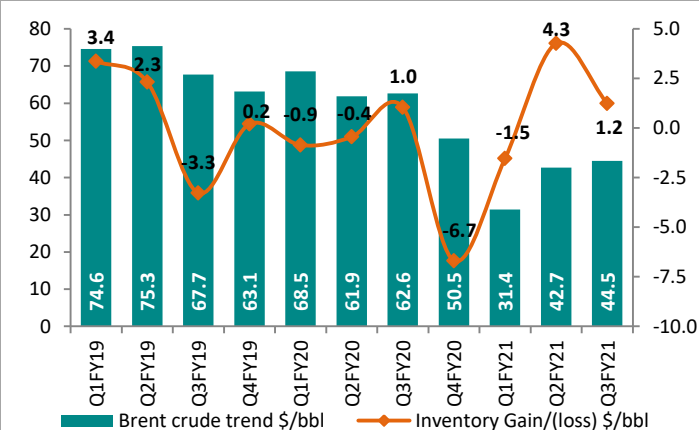
Source: Company; IDBI Capital Research

**Exhibit 6: Marketing sales (MMT)**


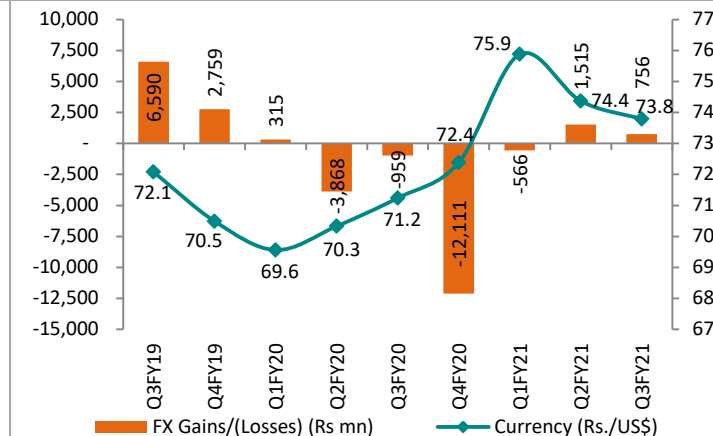
Source: Company; IDBI Capital Research

**Exhibit 7: Reported GRM & Premium (\$/bbl)**


Source: Company; IDBI Capital Research

**Exhibit 8: Brent crude trend & Inventory gains/(losses)**


Source: Company; IDBI Capital Research

**Exhibit 9: FX gains/(losses) & currency movement**


Source: Company; IDBI Capital Research

## Financial Summary

### Profit & Loss Account

(Rs mn)

Year-end: March	FY20	FY21E	FY22E	FY23E
<b>Net sales</b>	<b>2,831,330</b>	<b>2,261,438</b>	<b>2,680,957</b>	<b>3,320,553</b>
<i>growth (%)</i>	<i>(4.4)</i>	<i>(20.1)</i>	<i>18.6</i>	<i>23.9</i>
Operating expenses	(2,760,813)	(2,127,908)	(2,573,337)	(3,188,505)
<b>EBITDA</b>	<b>83,017</b>	<b>146,655</b>	<b>121,402</b>	<b>146,518</b>
<i>growth (%)</i>	<i>-34.5</i>	<i>76.7</i>	<i>-17.2</i>	<i>20.7</i>
Depreciation	(37,869)	(40,666)	(45,883)	(50,825)
<b>EBIT</b>	<b>45,148</b>	<b>105,989</b>	<b>75,519</b>	<b>95,693</b>
Interest paid	(21,819)	(14,173)	(13,298)	(13,298)
Other income	14,190	33,268	32,716	35,375
<b>Pre-tax profit</b>	<b>26,710</b>	<b>119,644</b>	<b>94,937</b>	<b>117,770</b>
Tax	122	(35,893)	(28,481)	(35,331)
<i>Effective tax rate (%)</i>	<i>(0.5)</i>	<i>30.0</i>	<i>30.0</i>	<i>30.0</i>
Minority Interest	-	-	-	-
<b>Net profit</b>	<b>26,832</b>	<b>83,750</b>	<b>66,456</b>	<b>82,439</b>
Exceptional items	(8,647)	(3,808)	-	-
<b>Adjusted net profit</b>	<b>35,479</b>	<b>87,558</b>	<b>66,456</b>	<b>82,439</b>
<i>growth (%)</i>	<i>(50.3)</i>	<i>146.8</i>	<i>(24.1)</i>	<i>24.1</i>
<i>Shares o/s (mn nos)</i>	<i>1,967</i>	<i>1,967</i>	<i>1,967</i>	<i>1,967</i>

### Cash Flow Statement

(Rs mn)

Year-end: March	FY20	FY21E	FY22E	FY23E
Pre-tax profit	26,710	119,644	94,937	117,770
Depreciation	37,869	40,666	45,883	50,825
Tax paid	(2,010)	(38,046)	(30,655)	(37,527)
Chg in working capital	15,399	(8,445)	17,056	15,966
Other operating activities	(118,889)	69,499	(19,418)	(22,077)
<b>Cash flow from operations (a)</b>	<b>(40,921)</b>	<b>183,317</b>	<b>107,802</b>	<b>124,957</b>
Capital expenditure	(76,546)	(91,213)	(101,225)	(81,237)
Chg in investments	(1,327)	(521)	(1,052)	(1,073)
Other investing activities	-	-	-	-
<b>Cash flow from investing (b)</b>	<b>(47,060)</b>	<b>(60,171)</b>	<b>(69,561)</b>	<b>(46,935)</b>
Equity raised/(repaid)	-	-	-	-
Debt raised/(repaid)	148,948	(60,000)	10,000	(10,000)
Dividend (incl. tax)	(38,944)	(40,200)	(31,899)	(39,571)
Chg in minorities	-	-	-	-
Other financing activities	(21,819)	(14,173)	(13,298)	(13,298)
<b>Cash flow from financing (c)</b>	<b>88,185</b>	<b>(114,373)</b>	<b>(35,197)</b>	<b>(62,869)</b>
<b>Net chg in cash (a+b+c)</b>	<b>204</b>	<b>8,773</b>	<b>3,045</b>	<b>15,153</b>

**Balance Sheet**

(Rs mn)

Year-end: March	FY20	FY21E	FY22E	FY23E
Net fixed assets	664,558	627,004	681,121	710,296
Investments	121,257	122,470	123,695	124,932
Other non-curr assets	68,242	68,924	69,614	70,310
<b>Current assets</b>	<b>410,632</b>	<b>348,386</b>	<b>405,287</b>	<b>501,979</b>
Inventories	204,211	163,333	193,505	239,482
Sundry Debtors	51,643	41,306	48,936	60,563
Cash and Bank	1,158	9,931	12,976	28,129
Marketable Securities	52,085	52,606	53,658	54,732
Loans and advances	5,906	4,724	5,596	6,926
<b>Total assets</b>	<b>1,264,690</b>	<b>1,166,784</b>	<b>1,279,715</b>	<b>1,407,516</b>
<b>Shareholders' funds</b>	<b>332,144</b>	<b>375,694</b>	<b>410,251</b>	<b>453,119</b>
Share capital	19,669	19,669	19,669	19,669
Reserves & surplus	312,475	356,025	390,582	433,451
<b>Total Debt</b>	<b>439,941</b>	<b>379,941</b>	<b>389,941</b>	<b>379,941</b>
Secured loans	262,727	193,866	194,563	174,794
Unsecured loans	177,214	186,074	195,378	205,147
Other liabilities	79,771	78,493	77,234	75,996
<b>Curr Liab &amp; prov</b>	<b>412,834</b>	<b>332,656</b>	<b>402,290</b>	<b>498,460</b>
Current liabilities	412,834	332,656	402,290	498,460
Provisions	-	-	-	-
<b>Total liabilities</b>	<b>932,546</b>	<b>791,090</b>	<b>869,464</b>	<b>954,396</b>
<b>Total equity &amp; liabilities</b>	<b>1,264,690</b>	<b>1,166,784</b>	<b>1,279,715</b>	<b>1,407,516</b>
<b>Book Value (Rs)</b>	<b>169</b>	<b>191</b>	<b>209</b>	<b>230</b>

Source: Company; IDBI Capital Research

**Financial Ratios**

Year-end: March	FY20	FY21E	FY22E	FY23E
Adj. EPS (Rs)	18.0	44.5	33.8	41.9
Adj EPS growth (%)	-50.3	146.8	-24.1	24.1
EBITDA margin (%)	2.9	6.5	4.5	4.4
Pre-tax margin (%)	0.9	5.3	3.5	3.5
ROE (%)	10.1	24.7	16.9	19.1
ROCE (%)	5.7	12.6	8.8	10.7
<b>Turnover &amp; Leverage ratios (x)</b>				
Asset turnover (x)	2.3	1.9	2.2	2.5
Leverage factor (x)	3.5	3.4	3.1	3.1
Net margin (%)	1.3	3.9	2.5	2.5
Net Debt/Equity (x)	1.2	0.8	0.8	0.7
<b>Working Capital &amp; Liquidity ratio</b>				
Inventory days	26.3	26.4	26.3	26.3
Receivable days	6.7	6.7	6.7	6.7
Payable days	16.5	19.0	19.0	19.0

**Valuation**

Year-end: March	FY20	FY21E	FY22E	FY23E
PER (x)	22.9	9.3	12.2	9.9
Price / Book value (x)	2.4	2.2	2.0	1.8
PCE (x)	11.1	6.3	7.2	6.1
EV / Net sales (x)	0.4	0.5	0.4	0.3
EV / EBITDA (x)	14.4	7.7	9.4	7.6
Dividend Yield (%)	4.0	4.1	3.3	4.1





# Notes

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### Key to Ratings Stocks:

**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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