

Bharat Petroleum Corp.

HOLD

Focus on divestment

Summary

In Q2FY22, BPCL's sales grew by 62.6% YoY and 15% QoQ to Rs815bn. Standalone EBITDA increased by 16.3% YoY and 37.7% QoQ to Rs44.8bn. Net profit expanded by 19.9% YoY and 79.4% QoQ to Rs26.9bn, mainly supported by increase in other come which grew by 3017% YoY to Rs3.9bn. Its domestic marketing volume grew by 11% while Refinery utilization remained at 104% in Q2FY22.

We are revising our PAT estimates upwards by 18.9% and 14.7% for FY22 and FY23 respectively. The stock is currently quoting at PER of 8.9x FY24E and 6.5x FY24 EV/EBITDA. We resume the coverage on the Company with Hold rating and SOTP based target price of Rs464.

Key Highlights and Investment Rationale

- Healthy Quarter:** In Q2FY22, BPCL reported healthy sales and PAT growth of 62.6% and 19.3% YoY. The Refinery utilization of the Company was healthy at 104%. At the same time, domestic marketing volume grew by 11%. The Company reported GRM of \$6.04/bbl during Q2FY22.
- Outlook:** As per the Management, the divestment process is in advanced stage and GOI aiming it to complete it by Q4FY22. Meetings with the prospective bidders have not taken place yet and may likely to take place in Q3FY22. The Company plans to incur Rs100bn capex in FY22.
- Valuations and recommendations:** The stock is currently quoting at PER of 8.9x FY24E and 6.5x FY24 EV/EBITDA. We resume the coverage on the Company with Hold rating and SOTP based target price of Rs464.

TP	Rs464
CMP	Rs418
Potential upside / downside	+11%
Previous Rating	HOLD

V/s Consensus

EPS (Rs)	FY22E	FY23E	FY24E
IDBI Capital	37.7	45.2	47.0
Consensus	41.2	47.4	51.6
% difference	(8.4)	(4.7)	(9.0)

Shareholding Pattern (%)

Promoters	53.0
FII	12.0
DII	21.7
Public	13.3

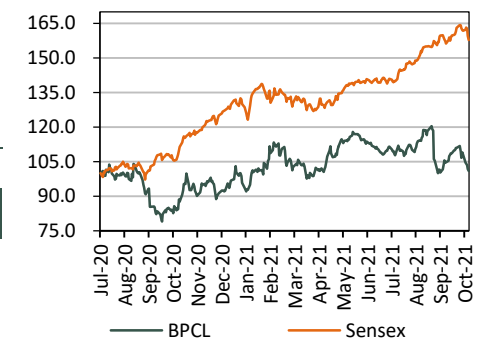
Price Performance (%)

	-1m	-3m	-12m
Absolute	(3.5)	(6.3)	17.9
Rel to Sensex	(4.5)	(19.0)	(31.8)

Key Stock Data

Bloomberg / Reuters	BPCL IN / BPCL.BO
Sector	Oil & Gas
Shares o/s (mn)	2,169
Market cap. (Rs mn)	906,205
Market cap. (US\$ mn)	12,089
3-m daily avg Trd value (Rs mn)	223.1
52-week high / low	Rs 503 / 344
Sensex / Nifty	59,307 / 17,672

Relative to Sensex (%)



Financial snapshot

Year	FY20	FY21	FY22E	FY23E	FY24E
Revenue	28,43,830	23,25,451	35,24,873	36,99,048	40,25,479
EBITDA	83,017	1,71,306	1,39,332	1,63,810	1,69,331
EBITDA (%)	2.9	7.4	4.0	4.4	4.2
Adj. PAT	18,697	1,90,417	79,007	94,544	98,306
EPS (Rs)	13.6	91.0	37.7	45.2	47.0
EPS Growth (%)	-62.4	566.9	-58.5	19.7	4.0
PE (x)	30.6	4.6	11.1	9.3	8.9
Dividend Yield (%)	3.9	4.9	3.6	4.3	4.5
EV/EBITDA (x)	14.6	6.0	8.4	7.0	6.5
RoE (%)	7.7	43.4	19.9	21.3	19.9
RoCE (%)	5.7	15.0	10.9	12.5	12.2

Source: IDBI Capital Research;

Conference call highlights:**■ On market share and future expansion plans**

- The company has gained market share both in urban and highway sector where company has been traditionally strong and is planning on strategic network expansion.
- As on Sept-21, the company has second highest number of outlets count at 19,251, with highest throughput outlets amongst the PSU space.
- On the future expansion plan, the company has taken initiatives in retail space to expand its CNG network from current 687 stations to around 1000 by end of the year.
- Also the company has 7 battery charging stations and 45 public charging stations across 11 cities. Currently the work is in progress for its 54 charging station and with overall station count aimed at 1000, the company will cater to all forms of energy needs of customer.

■ On product wise performance

- In LPG, the company grew by 4% compared to same quarter last year while on ATF it grew by .24% compared to same quarter last year. The company's focus being on international sector and still operations not functional, the recovery to take place once the demands starts coming.
- The global gasoline demand at pre-pandemic levels, the MS crack (average) at \$9.7/bbl in the quarter compared to \$8.0/bbl in Q1FY22. On the HSD front, the upsurge in LNG cost coupled with winter demand led to elevated prices at \$8.13/bbl in the quarter compared to \$6.9/bbl in Q1FY22.
- The crude oil (Indian basket) in the quarter at \$72/bbl compared to \$67/bbl in Q1FY22, while the GRM improved to \$6.04/bbl in the quarter compared to \$4.12/bbl in Q1FY22. The Refinery Throughput (MMT) in the quarter at 7.16 compared to 6.83 MMT in Q1FY22, increased due to higher demand post covid.
- On the refinery throughput, peak levels (of 31MMT, 8.3 to 8.4 per quarter achieved in 2019-20) can be seen in FY23 if the demand persists. The stronger demand will lead to Q4FY22 achieving pre-pandemic levels. The management expects Q3FY22 throughput levels for Q3FY22 at 7.5 to 7.6 MMT.
- On the company's market share across products in H1FY22, the MS (Petrol-Retail) at 28.96% (29.22% in Q2FY22); HSD (Diesel) at 29.37% (29.91% in Q2FY22); Industrial and commercial at 18.61% (18% in Q2FY22); LPG at 26.7% (26.98% in Q2FY22). The overall market share in Q2FY22 at 24.32%

■ On refineries performance & petrochemical project and future capex

- On the refinery margins of Mumbai (MR) and Kochi refineries, the combined margins of the refineries in the quarter at 6.04%. The MR margins at 6.54% compared to Kochi margins of 5.54%. The higher MR margins of MR are due to presence of value added units. As per the management, the conversion from propylene to LPG and petrochemical price differentiation will lead to higher margins for Kochi refinery.
- The capex at petrochemical project in Kochi (PPDP), 2 out of 3 units are commissioned, while one of its unit is currently facing technical issues which are resolved by mid of November. The management expects all 3 units to normalize operation by Q4FY22 with good output to be seen from PPDP. The 3 petrochemical units at full capacity levels can achieve GRM of \$1, while higher prices of petrochemicals can lead to more than \$1 GRM.
- On the capex front, the company spent Rs 65.54 bn in H1FY22. The borrowings reduced significantly at Rs 210bn compared to Rs 263.5 bn as on Mar 31st, 2021, (excl. lease amount of Rs9 bn). The receivables from Govt. of India as on Sept-21 at Rs1.2 bn
- The company has made large investments in digital areas i.e. shifting from conventional POS to android POS and refocusing more on putting convenience stores for retailing. The company added 485 outlets in Q2FY22 compared to 130 in Q1FY22. On the capex for EV station, not more than Rs 500mn would be required for investment and will be handled by the company itself.
- The capex for FY2022-23 expected at Rs 100bn which is subjected to change if any new projects are undertaken for development.

■ Other highlights

- The Ethanol blending currently at 10% (current vehicles in market can take ethanol blending up to 10% only) and 20% is target set for. The 20% target in near future is not expected to achieve as issues like change in specifications for more ethanol sensitivity by the OEM's and retro fitment of vehicles being the obstacles.
- On the open offer from IGL & Petronet LNG, no development and clarity from the regulator and the company continues to hold stake in the respective companies as being the strategic investments.
- The amalgamation of the company with wholly owned subsidiary BORL (Bharat Oman Refineries Ltd) is facing no roadblocks and the privatization initiative won't be delayed because of the process. The expected merger timeline is around 6 to 9 months.

- On the employee expenses, similar numbers that of Q2FY22 will be seen in coming quarter. The current manpower is very lean and company already had VRS expenses in Q2FY21. Currently no hiring process is undergoing by the company.

Exhibit 1: Quarterly performance

(Rs mn)

	Q2FY22	Q2FY21	YoY%	Q1FY22	QoQ%
Net sales	8,15,367	5,01,464	62.6	7,09,213	15.0
Expenditure	7,70,590	4,62,952	66.5	6,76,685	13.9
EBITDA	44,777	38,512	16.3	32,527	37.7
EBITDA margin (%)	5.5	7.7	(219)	4.6	91
Depreciation	11,681	9,888	18.1	11,446	2.1
EBIT	33,096	28,624	15.6	21,082	57.0
Interest	3,940	126	3,017.2	4,867	-19.0
Other income	6,805	4,211	61.6	4,517	50.7
Fx gains/(losses)	0	1,515	NA	0	NA
PBT (before exceptional items)	35,961	34,223	5.1	20,732	73.5
Exceptional items	0	(1,246)	NA	(771)	NA
PBT (before exceptional items)	35,961	32,978	9.0	19,961	80.2
Tax	9,020	10,500	-14.1	4,945	82.4
Reported PAT	26,941	22,478	19.9	15,016	79.4
Adjusted EPS (Rs)	12.7	11.4	10.7	7.1	78.7
Refinery throughput (MMT)	7.16	5.63	27.2	6.84	4.7
Market sales (MMT)	9.91	9.94	-0.3	9.63	2.9
Export sales (MMT)	0.48	0.28	71.4	0.31	54.8

Source: Company; IDBI Capital Research

Exhibit 2: Change in estimates

Key parameters (Rs mn)	FY22E			FY23E		
	Old	New	% Chg	Old	New	% Chg
Revenue	26,80,975	35,24,873	31.5	33,20,553	36,99,048	11.4
EBITDA	1,21,402	1,39,332	14.8	1,46,518	1,63,810	11.8
<i>EBITDA margin (%)</i>	4.5	4.0	(58)	4.4	4.4	2
Net profit	66,456	79,007	18.9	82,439	94,544	14.7

Source: IDBI Capital Research

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY21	FY22E	FY23E	FY24E
Net sales	23,25,451	35,24,873	36,99,048	40,25,479
<i>Growth (%)</i>	<i>(18.2)</i>	<i>51.6</i>	<i>4.9</i>	<i>8.8</i>
Operating expenses	(21,54,145)	(33,85,541)	(35,35,237)	(38,56,148)
EBITDA	1,71,306	1,39,332	1,63,810	1,69,331
<i>Growth (%)</i>	<i>106.4</i>	<i>-18.7</i>	<i>17.6</i>	<i>3.4</i>
Depreciation	(39,781)	(45,883)	(50,825)	(54,667)
EBIT	1,31,526	93,449	1,12,985	1,14,664
Interest paid	(13,284)	(13,298)	(13,298)	(12,948)
Other income	43,445	32,716	35,375	38,721
Pre-tax profit	1,61,687	1,12,867	1,35,062	1,40,437
Tax	(47,318)	(33,860)	(40,519)	(42,131)
<i>Effective tax rate (%)</i>	<i>29.3</i>	<i>30.0</i>	<i>30.0</i>	<i>30.0</i>
Minority Interest	#N/A			
Net profit	1,14,369	79,007	94,544	98,306
Exceptional items	76,048	-		
Adjusted net profit	1,90,417	79,007	94,544	98,306
<i>Growth (%)</i>	<i>918.4</i>	<i>(58.5)</i>	<i>19.7</i>	<i>4.0</i>
<i>Shares o/s (mn nos)</i>	<i>2,092.9</i>	<i>2,092.9</i>	<i>2,092.9</i>	<i>2,092.9</i>

Cash Flow Statement

(Rs mn)

Year-end: March	FY21	FY22E	FY23E	FY24E
Pre-tax profit	2,37,735	1,12,867	1,35,062	1,40,437
Depreciation	39,781	45,883	50,825	54,667
Tax paid	(28,338)	(36,034)	(42,715)	(44,349)
Chg in working capital	35,716	38,742	1,775	9,445
Other operating activities	(83,609)	(19,418)	(22,077)	(25,773)
Cash flow from operations (a)	2,01,284	1,42,040	1,22,871	1,34,427
Capital expenditure	(60,790)	(1,01,225)	(81,237)	(61,249)
Chg in investments	50,067	(1,052)	(1,073)	(1,095)
Other investing activities	31,437	32,716	35,375	38,721
Cash flow from investing (b)	20,714	(69,561)	(46,935)	(23,623)
Equity raised/(repaid)	55,195	1,260	-	-
Debt raised/(repaid)	(1,49,911)	10,000	(10,000)	(10,000)
Dividend (incl. tax)	(42,613)	(37,923)	(45,381)	(47,187)
Chg in minorities	-	-	-	1
Other financing activities	(18,894)	(13,298)	(13,298)	(12,948)
Cash flow from financing (c)	(1,56,223)	(39,961)	(68,679)	(70,134)
Net chg in cash (a+b+c)	65,776	32,518	7,257	40,670

Balance Sheet

(Rs mn)

Year-end: March	FY21	FY22E	FY23E	FY24E
Net fixed assets	7,09,789	6,81,121	7,10,296	7,15,628
Investments	1,21,679	1,23,695	1,24,932	1,26,181
Other non-curr assets	60,856	69,614	70,310	71,013
Current assets	5,13,721	5,40,379	5,70,598	6,53,385
Inventories	2,67,568	2,53,115	2,65,622	2,89,063
Sundry Debtors	78,275	64,011	67,174	73,102
Cash and Bank	70,535	43,743	51,001	91,670
Marketable Securities	67,943	53,658	54,732	55,826
Loans and advances	29,401	1,25,851	1,32,070	1,43,724
Total assets	14,06,045	14,14,808	14,76,135	15,66,207
Shareholders' funds	5,45,446	4,18,371	4,67,534	5,18,653
Share capital	20,929	20,929	20,929	20,929
Reserves & surplus	5,24,516	3,97,442	4,46,605	4,97,724
Total Debt	2,88,676	3,89,941	3,79,941	3,69,941
Secured loans	2,46,348	1,94,563	1,74,794	1,54,536
Unsecured loans	42,328	1,95,378	2,05,147	2,15,404
Other liabilities	66,800	77,234	75,996	74,781
Curr Liab & prov	5,05,123	5,29,262	5,52,664	6,02,832
Current liabilities	5,05,123	5,29,262	5,52,664	6,02,832
Provisions	-	-	-	-
Total liabilities	8,60,599	9,96,437	10,08,601	10,47,554
Total equity & liabilities	14,06,045	14,14,808	14,76,135	15,66,207
Book Value (Rs)	261	200	223	248

Source: Company; IDBI Capital Research

Financial Ratios

Year-end: March	FY21	FY22E	FY23E	FY24E
Adj. EPS (Rs)	91.0	37.7	45.2	47.0
Adj. EPS growth (%)	566.9	(59)	19.7	4.0
EBITDA margin (%)	7.4	4.0	4.4	4.2
Pre-tax margin (%)	10.2	3.2	3.7	3.5
ROE (%)	43.4	19.9	21.3	19.9
ROCE (%)	15.0	10.9	12.5	12.2
Turnover & Leverage ratios (x)				
Asset turnover (x)	2.6	4.0	4.0	4.2
Leverage factor (x)	1.7	2.1	2.0	1.9
Net margin (%)	8.2	2.2	2.6	2.4
Net Debt/Equity (x)	0.5	0.9	0.8	0.7
Working Capital & Liquidity ratio				
Inventory days	42	26	26	26
Receivable days	12	7	7	7
Payable days	28	19	19	19

Valuation

Year-end: March	FY21	FY22E	FY23E	FY24E
P/E (x)	4.6	11.1	9.3	8.9
Price / Book value (x)	1.6	2.1	1.9	1.7
PCE (x)	3.8	7.0	6.0	5.7
EV / Net sales (x)	0.4	0.3	0.3	0.3
EV / EBITDA (x)	6.0	8.4	7.0	6.5
Dividend Yield (%)	4.9	3.6	4.3	4.5



Notes

Dealing

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Key to Ratings Stocks:**BUY:** 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.**IDBI Capital Markets & Securities Ltd.****Equity Research Desk**

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