

**BUY**

TP: Rs 470 | ▲ 32%

**BHARAT PETROLEUM  
CORP**

| Oil &amp; Gas

| 04 June 2020

## Inventory losses sink earnings

**BPCL reported a Q4FY20 EBITDA loss of Rs 6.2bn owing to inventory/forex losses of Rs 49bn/Rs 121bn. Adj. GRMs outperformed at US\$ 7.2/bbl (ex-inventory loss) while adj. marketing segment EBITDA – inferred after factoring in GRM data – was in line at Rs 21bn. We cut FY21/FY22 earnings by ~17% each on higher interest costs due to a surge in working capital. Our Mar'21 TP remains unchanged at Rs 470. BPCL's fundamentals could see a sharp revival from Q2FY21. Reiterate BUY on attractive valuations.**

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**GRMs outperform:** BPCL's GRMs came in ahead of expectations at US\$ 7.2/bbl (ex-inventory loss of US\$ 6.4/bbl), beating the Singapore benchmark. This was driven by US\$ 5-7/bbl of discounts on the Middle East crude purchase portfolio (~60% of total crude purchase) received in Feb-Mar'20. Most of the inventory losses could be reversed in Q1FY21 considering the recent rally in oil prices. While benchmark global GRMs remain muted, margins for BPCL (and other OMC peers) may continue to outperform given repeat discounts on crude in the Apr-May'20 period.

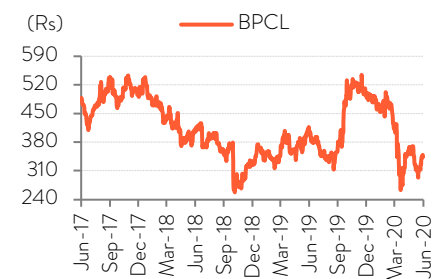
**Marketing business earnings muted:** Q4 marketing business earnings (implied from GRM data) were muted at Rs 21bn (~Rs 1,890/mt, ex-Rs 19bn of inventory loss). Recent hikes in excise duties and the surge in oil price have reversed the extraordinarily high margins seen in Apr-May'20. Sale volumes were in line at 10.73mmt (-5.5% YoY vs. -3.1% for industry), with market share losses in diesel and other industrial products. Margin trends are in line with our FY21/FY22 estimates.

**Maintain BUY:** At 7.4x FY22E EBITDA, BPCL's valuations remain at a premium to OMC peers, but the stock looks lucrative given potential cash proceeds from divestment of Numaligarh Refinery (Rs 15bn PAT in FY20) in Dec'20E.

Ticker/Price	BPCL IN/Rs 357
Market cap	US\$ 9.3bn
Shares o/s	1,967mn
3M ADV	US\$ 45.4mn
52wk high/low	Rs 549/Rs 252
Promoter/FPI/DII	53%/12%/35%

Source: NSE

## STOCK PERFORMANCE



Source: NSE

## KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20P	FY21E	FY22E
Total revenue (Rs mn)	2,357,698	2,982,256	2,845,719	2,162,306	2,623,385
EBITDA (Rs mn)	151,727	151,122	83,490	141,962	157,886
Adj. net profit (Rs mn)	97,919	85,278	34,851	88,533	92,917
Adj. EPS (Rs)	49.8	43.4	17.7	45.0	47.2
Adj. EPS growth (%)	3.0	(12.9)	(59.1)	154.0	5.0
Adj. ROAE (%)	29.0	21.8	8.8	22.8	22.5
Adj. P/E (x)	7.2	8.2	20.2	7.9	7.6
EV/EBITDA (x)	6.4	7.0	13.1	8.5	8.6

Source: Company, BOBCAPS Research

**BOB Capital Markets Ltd is a wholly owned subsidiary of Bank of Baroda**

Important disclosures, including any required research certifications, are provided at the end of this report.



FIG 1 – QUARTERLY PERFORMANCE

(Rs mn)	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	FY20	FY19	YoY (%)
<b>Net sales</b>	<b>689,914</b>	<b>739,904</b>	<b>(6.8)</b>	<b>747,324</b>	<b>(7.7)</b>	<b>2,843,830</b>	<b>2,971,478</b>	<b>(4.3)</b>
<b>EBITDA</b>	<b>(6,188)</b>	<b>48,050</b>	<b>-</b>	<b>27,030</b>	<b>-</b>	<b>66,393</b>	<b>118,370</b>	<b>(43.9)</b>
EBITDA margin (%)	(0.9)	6.5	-	3.6	-	2.3	4.0	-
Depreciation and amortisation	9,474	9,149	3.6	9,731	(2.6)	37,869	31,893	18.7
Interest	5,786	3,526	64.1	5,121	13.0	21,819	13,190	65.4
Other income	11,568	10,576	9.4	5,148	124.7	30,813	31,108	(0.9)
<b>PBT</b>	<b>(9,880)</b>	<b>45,951</b>	<b>-</b>	<b>17,326</b>	<b>-</b>	<b>37,519</b>	<b>104,396</b>	<b>(64.1)</b>
Exceptional item	10,808.3	-	-	-	-	10,808.3	-	-
Provision for tax	(7,079)	14,702	-	4,724	(249.8)	(121)	33,076	-
Effective tax rate	71.64	32.00		27.26	-	(0.32)	31.68	-
<b>PAT (reported)</b>	<b>(13,610)</b>	<b>31,249</b>	<b>-</b>	<b>12,602</b>	<b>-</b>	<b>37,640</b>	<b>71,320</b>	<b>(47.2)</b>
<b>PAT (adjusted)</b>	<b>(2,802)</b>	<b>12,187</b>	<b>-</b>	<b>12,602</b>	<b>-</b>	<b>37,640</b>	<b>71,320</b>	<b>(47.2)</b>
<b>EPS (adj.)</b>	<b>(1.42)</b>	<b>6.20</b>	<b>-</b>	<b>6.41</b>	<b>-</b>	<b>19.14</b>	<b>36.26</b>	<b>(47.2)</b>
<b>Reported GRMs (US\$/bbl)</b>	<b>0.75</b>	<b>2.74</b>	<b>(72.6)</b>	<b>3.23</b>	<b>(76.8)</b>	<b>2.50</b>	<b>4.58</b>	<b>(45.4)</b>
<b>Refining throughput (mmt)</b>	<b>8.39</b>	<b>8.21</b>	<b>2.2</b>	<b>8.41</b>	<b>(0.2)</b>	<b>31.91</b>	<b>31.01</b>	<b>2.9</b>
<b>Market sales (mmt)</b>	<b>11.24</b>	<b>11.65</b>	<b>(3.5)</b>	<b>12.34</b>	<b>(8.9)</b>	<b>45.73</b>	<b>44.98</b>	<b>1.7</b>

Source: Company, BOBCAPS Research

FIG 2 – OPERATIONAL PERFORMANCE

	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	FY20	FY19	YoY (%)
<b>GRM (US\$/bbl)</b>	<b>0.8</b>	<b>2.7</b>	<b>(72.6)</b>	<b>3.2</b>	<b>(76.8)</b>	<b>2.5</b>	<b>4.6</b>	<b>(45.4)</b>
- Mumbai	1.0	3.6	(72.9)	3.6	(73.2)	2.2	4.9	(54.6)
- Kochi	0.5	2.0	(73.4)	2.9	(81.1)	1.6	4.3	(62.5)
<b>Inventory gains/ (loss) (US\$/bbl)</b>	<b>(6.43)</b>	<b>0.2</b>	<b>-</b>	<b>1.04</b>	<b>-</b>	<b>(1.7)</b>	<b>0.6</b>	<b>405.3</b>
<b>Normalised GRMs (US\$/bbl)</b>	<b>7.18</b>	<b>2.6</b>	<b>181.1</b>	<b>2.19</b>	<b>227.3</b>	<b>4.2</b>	<b>4.0</b>	<b>4.2</b>
- Mumbai	1.0	3.0	(68.0)	2.5	(60.4)	2.2	4.5	(49.9)
- Kochi	0.5	2.1	(74.8)	2.0	(72.4)	1.6	3.6	(55.7)
<b>Crude throughput (MMT)</b>	<b>8.4</b>	<b>8.2</b>	<b>2.2</b>	<b>8.4</b>	<b>(0.2)</b>	<b>31.9</b>	<b>31.0</b>	<b>2.9</b>
<b>Adj. Refining EBITDA (Rs mn)</b>	<b>21,578</b>	<b>243</b>	<b>8,771.7</b>	<b>(1,346)</b>	<b>(1,703.2)</b>	<b>28,850</b>	<b>24,467</b>	<b>17.9</b>
<b>Total market sales (MT)</b>	<b>11.24</b>	<b>11.65</b>	<b>(3.5)</b>	<b>12.34</b>	<b>(8.9)</b>	<b>45.73</b>	<b>44.98</b>	<b>1.7</b>
Market sales (MT) - Domestic	10.7	11.4	(5.5)	11.0	(2.6)	43.1	43.1	0.1
Market sales (MT) - Exports	0.51	0.30	70.0	1.32	(61.4)	2.62	1.91	37.2
<b>Marketing EBITDA (Rs mn)</b>	<b>1,883</b>	<b>47,807</b>	<b>(96.1)</b>	<b>23,826</b>	<b>(92.1)</b>	<b>37,543</b>	<b>93,903</b>	<b>(60.0)</b>
<b>Marketing EBITDA (Rs/MT)</b>	<b>168</b>	<b>4,104</b>	<b>(95.9)</b>	<b>1,931</b>	<b>(91.3)</b>	<b>821</b>	<b>2,088</b>	<b>(60.7)</b>
<b>Marketing inventory gains/(loss) (Rs mn)</b>	<b>(19,370)</b>	<b>2,720</b>	<b>-</b>	<b>820</b>	<b>-</b>	<b>(18,330)</b>	<b>1,740</b>	<b>-</b>
<b>Adj Marketing EBITDA (Rs mn)</b>	<b>21,253</b>	<b>45,087</b>	<b>(52.9)</b>	<b>23,006</b>	<b>(7.6)</b>	<b>55,873</b>	<b>92,163</b>	<b>(39.4)</b>
<b>Adj Marketing EBITDA (Rs/MT)</b>	<b>1,891</b>	<b>3,870</b>	<b>(51.1)</b>	<b>1,864</b>	<b>1.4</b>	<b>1,222</b>	<b>2,049</b>	<b>(40.4)</b>
Total reported EBITDA (Rs mn)	(6,188)	48,050	(112.9)	27,030	(122.9)	66,393	118,370	(43.9)

Source: Company, BOBCAPS Research

## Earnings call highlights

- Off the total inventory loss of Rs 49 bn, BPCL accounted Rs10.8 bn in exceptional items for Q4FY20 (off which ~Rs 4bn was from the refining segment and the remainder from the marketing segment)
- Demand for petroleum products is growing steadily as the nationwide lockdown is being gradually lifted. Petrol which forms a smaller proportion of BPCL's product slate, has picked up faster than Diesel. Bitumen and other industrial products remain sluggish.
- Freight rates were high during the quarter so the drop in crude prices didn't give BPCL a substantial advantage. On average, the company's gross margins for MS/HSD stood at Rs 2/ltr each for FY20.
- With the recent decline in demand for ATF, the product slate can be easily tilted towards diesel for better margins.
- For Mar/Apr'20, BPCL's receivables from the government total Rs 48bn/ Rs 52bn.
- One of the recent measures under the government's 'Gharib Kalyan Yojana' was for free LPG cylinder distribution. BPCL's overall costs towards this would be Rs 38bn, which will later be compensated for by the government
- Numaligarh Refinery GRMs with excise benefits stood at US\$ 17/bbl in Q4FY20 and US\$ 24.5/bbl in FY20. Without the excise benefits, GRMs stood at US\$ 2.9/bbl and US\$ 8.8/bbl respectively. The refinery reported Rs 15.3bn of profit during FY20.
- Bina Refinery GRMs stood at US\$ 2.4/bbl and US\$ 5.6/bbl for Q4FY20 and FY20 respectively
- BPCL's major procurement sources for crude are as follows: 26% from Saudi Arabia, 17% from Iraq and 14% from Abu Dhabi.
- The company will migrate to the new tax regime once the remaining MAT credit of Rs 7.2bn is availed.
- An impairment of Rs 5.9bn was recorded for E&P assets held in Brazil and Mozambique. This led to losses of Rs 3.1bn for BRPL, a subsidiary of BPCL.

## Valuation methodology

We cut FY21/FY22 earnings by ~17% each on higher interest costs due to a surge in working capital. Our Mar'21 TP remains unchanged at Rs 470. BPCL's fundamentals could see a sharp revival from Q2FY21. Reiterate BUY on attractive valuations. At 7.4x FY22E EBITDA, though valuations remain at a premium to OMC peers, the stock looks lucrative given potential cash proceeds from divestment of Numaligarh Refinery (Rs 15bn PAT in FY20) in Dec'20E.

**FIG 3 – REVISED ESTIMATES**

(Rs mn)	FY21E			FY22E		
	Old	New	Var (%)	Old	New	Var (%)
Revenue	3,735,442	3,735,442	-	3,974,068	3,974,070	-
EBITDA	140,702	141,962	0.9	154,854	157,886	2.0
EBITDA margin (%)	3.8	6.6	-	3.9	6.0	-
PAT	105,390	88,533	(16.0)	112,757	92,917	(17.6)
EPS (Rs)	53.6	45.0	(16.0)	57.3	47.2	(17.6)

Source: Company, BOBCAPS Research

Our SOTP valuation is arrived at as follows:

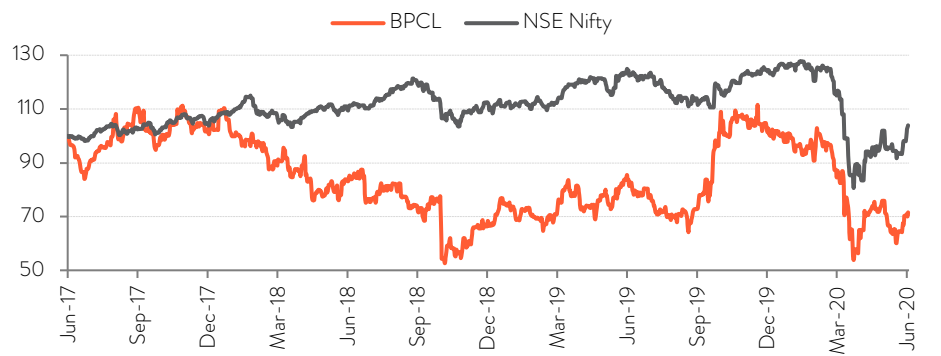
- refining businesses valued at 6x FY22E EBITDA,
- marketing business at 5x FY22E EBITDA,
- other investments in listed entities valued at 20% discount to CMP, and
- E&P business valued at an EV/boe of US\$ 1 and US\$ 4/boe for yet-to-be developed reserves in Mozambique and Brazil respectively. Note that execution troubles and low oil prices could extend the delays in production start-up to well beyond 2023.

**FIG 4 – VALUATION SUMMARY**

Business segments	EV (Rs/bn)	Value (Rs/share)	Comments
<b>Refining</b>			
Standalone	239	122	6x FY22E EBITDA
BORL refinery	179	91	6x FY22E EBITDA
Numaligarh	183	93	6x FY22E EBITDA
Marketing	494	251	5x FY22E EBITDA
<b>Total core business</b>	<b>1,096</b>	<b>557</b>	
Less: Net Debt	308	156	Adjusted for consolidation
<b>Equity value of core business</b>	<b>788</b>	<b>401</b>	
Total investments value	103	52	Investments in PLNG, OINL, IGL @ 20% discount to CMP
Total E&P	40	20	Brazil at EV/boe of US\$ 4, Mozambique at EV/boe of US\$ 1
<b>Total equity value for BPCL</b>	<b>930</b>	<b>470</b>	<b>At 10x FY22E EPS</b>

Source: BOBCAPS Research

**FIG 5 – RELATIVE STOCK PERFORMANCE**



Source: NSE

### Key risks

- **Global slowdown:** BPCL’s valuations are highly sensitive to GRMs and marketing margins. An elongated slowdown in global economies (and consequently the Indian economy) could lead to lower than expected spreads and alter our valuation outlook.
- **Surge in oil prices:** A surge in oil prices (to >US\$ 70/bbl levels) could provoke a change in government regulation on marketing margins for retail sales of petrol/diesel, especially in the wake of recent sharp hikes in excise duties on these fuels. Marketing business earnings could be severely affected by this.

## FINANCIALS

### Income Statement

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20P	FY21E	FY22E
<b>Total revenue</b>	<b>2,357,698</b>	<b>2,982,256</b>	<b>2,845,719</b>	<b>2,162,306</b>	<b>2,623,385</b>
EBITDA	151,727	151,122	83,490	141,962	157,886
Depreciation	(28,850)	(34,178)	(40,801)	(40,061)	(43,137)
EBIT	122,877	116,945	42,689	101,901	114,749
Net interest income/(expenses)	(11,857)	(17,640)	(26,370)	(32,348)	(42,917)
Other income/(expenses)	17,827	20,375	19,293	38,674	40,631
Exceptional items	0	0	(13,103)	0	0
EBT	128,846	119,680	35,613	108,226	112,463
Income taxes	(43,816)	(43,775)	142	(31,679)	(32,802)
Min. int./Inc. from associates	12,889	9,373	(14,007)	11,986	13,256
<b>Reported net profit</b>	<b>97,919</b>	<b>85,278</b>	<b>36,658</b>	<b>64,561</b>	<b>66,405</b>
<b>Adjusted net profit</b>	<b>97,919</b>	<b>85,278</b>	<b>34,851</b>	<b>88,533</b>	<b>92,917</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20P	FY21E	FY22E
Accounts payables	132,319	173,847	131,072	136,781	194,470
Other current liabilities	220,330	211,450	297,596	252,092	162,839
Provisions	31,959	35,662	15,960	15,960	15,960
Debt funds	379,136	429,145	616,482	705,744	755,744
Other liabilities	55,224	67,920	61,639	60,822	60,004
Equity capital	19,669	19,669	19,669	19,669	19,669
Reserves & surplus	346,517	398,023	355,902	380,216	404,691
Shareholders' fund	366,186	417,692	375,570	399,885	424,360
<b>Total liabilities and equities</b>	<b>1,204,206</b>	<b>1,356,417</b>	<b>1,518,883</b>	<b>1,591,847</b>	<b>1,633,939</b>
Cash and cash eq.	13,539	6,625	21,897	4,259	5,576
Accounts receivables	52,048	69,063	53,780	40,572	49,302
Inventories	225,295	229,349	222,425	236,737	175,023
Other current assets	76,953	124,789	107,462	107,462	107,462
Investments	237,246	249,069	270,285	334,700	400,964
Net fixed assets	455,574	493,146	601,417	635,974	667,454
CWIP	98,754	141,547	177,896	168,424	164,436
Deferred tax assets, net	4,066	4,537	13,848	13,848	13,848
Other assets	40,732	38,293	49,873	49,873	49,873
<b>Total assets</b>	<b>1,204,206</b>	<b>1,356,417</b>	<b>1,518,883</b>	<b>1,591,848</b>	<b>1,633,939</b>

Source: Company, BOBCAPS Research

### Cash Flows

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20P	FY21E	FY22E
Net income + Depreciation	124,647	119,456	77,459	104,622	109,542
Changes in working capital	(24,095)	(30,585)	42,309	(40,897)	21,418
Other operating cash flows	(3,151)	(7,679)	(12,471)	(39,492)	(41,449)
<b>Cash flow from operations</b>	<b>97,401</b>	<b>81,192</b>	<b>107,297</b>	<b>24,233</b>	<b>89,512</b>
Capital expenditures	(75,770)	(114,543)	(185,421)	(65,146)	(70,630)
Change in investments	(23,974)	(11,823)	(21,216)	(64,415)	(66,265)
Other investing cash flows	17,827	20,375	19,293	38,674	40,631
<b>Cash flow from investing</b>	<b>(81,917)</b>	<b>(105,991)</b>	<b>(187,343)</b>	<b>(90,886)</b>	<b>(96,264)</b>
Equities issued/Others	6,556	0	0	0	0
Debt raised/repaid	19,672	50,009	187,337	89,262	50,000
Dividends paid	(52,880)	(43,724)	(17,266)	(40,246)	(41,930)
Other financing cash flows	5,862	11,601	(61,650)	0	0
<b>Cash flow from financing</b>	<b>(20,790)</b>	<b>17,886</b>	<b>108,421</b>	<b>49,016</b>	<b>8,070</b>
<b>Changes in cash and cash eq.</b>	<b>(5,307)</b>	<b>(6,913)</b>	<b>28,375</b>	<b>(17,638)</b>	<b>1,318</b>
<b>Closing cash and cash eq.</b>	<b>13,539</b>	<b>6,625</b>	<b>35,000</b>	<b>4,259</b>	<b>5,576</b>

### Per Share

Y/E 31 Mar (Rs)	FY18A	FY19A	FY20P	FY21E	FY22E
Reported EPS	49.8	43.4	18.6	32.8	33.8
Adjusted EPS	49.8	43.4	17.7	45.0	47.2
Dividend per share	23.2	19.0	7.5	17.5	18.2
Book value per share	186.2	212.4	190.9	203.3	215.8

### Valuations Ratios

Y/E 31 Mar (x)	FY18A	FY19A	FY20P	FY21E	FY22E
EV/Sales	0.4	0.4	0.4	0.6	0.5
EV/EBITDA	6.4	7.0	13.1	8.5	8.6
Adjusted P/E	7.2	8.2	20.2	7.9	7.6
P/BV	1.9	1.7	1.9	1.8	1.7

### DuPont Analysis

Y/E 31 Mar (%)	FY18A	FY19A	FY20P	FY21E	FY22E
Tax burden (Net profit/PBT)	76.0	71.3	154.8	81.8	82.6
Interest burden (PBT/EBIT)	104.9	102.3	52.7	106.2	98.0
EBIT margin (EBIT/Revenue)	5.2	3.9	1.5	4.7	4.4
Asset turnover (Revenue/Avg TA)	205.5	232.9	197.9	139.0	162.7
Leverage (Avg TA/Avg Equity)	3.4	3.3	3.6	4.0	3.9
Adjusted ROAE	29.0	21.8	8.8	22.8	22.5

Source: Company, BOBCAPS Research | Note: TA = Total Assets

**Ratio Analysis**

Y/E 31 Mar	FY18A	FY19A	FY20P	FY21E	FY22E
<b>YoY growth (%)</b>					
Revenue	17.2	26.5	(4.6)	(24.0)	21.3
EBITDA	10.4	(0.4)	(44.8)	70.0	11.2
Adjusted EPS	3.0	(12.9)	(59.1)	154.0	5.0
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	6.4	5.1	2.9	6.6	6.0
EBIT margin	5.2	3.9	1.5	4.7	4.4
Adjusted profit margin	4.2	2.9	1.2	4.1	3.5
Adjusted ROAE	29.0	21.8	8.8	22.8	22.5
ROCE	11.2	9.1	4.5	6.7	7.0
<b>Working capital days (days)</b>					
Receivables	8	7	8	8	6
Inventory	39	32	33	44	32
Payables	20	20	20	24	25
<b>Ratios (x)</b>					
Gross asset turnover	3.3	3.7	3.1	2.1	2.4
Current ratio	0.8	0.8	0.7	0.6	0.6
Net interest coverage ratio	10.4	6.6	1.6	3.2	2.7
Adjusted debt/equity	1.0	1.0	1.6	1.8	1.8

Source: Company, BOBCAPS Research



## Disclaimer

**BUY** – Expected return >+15%

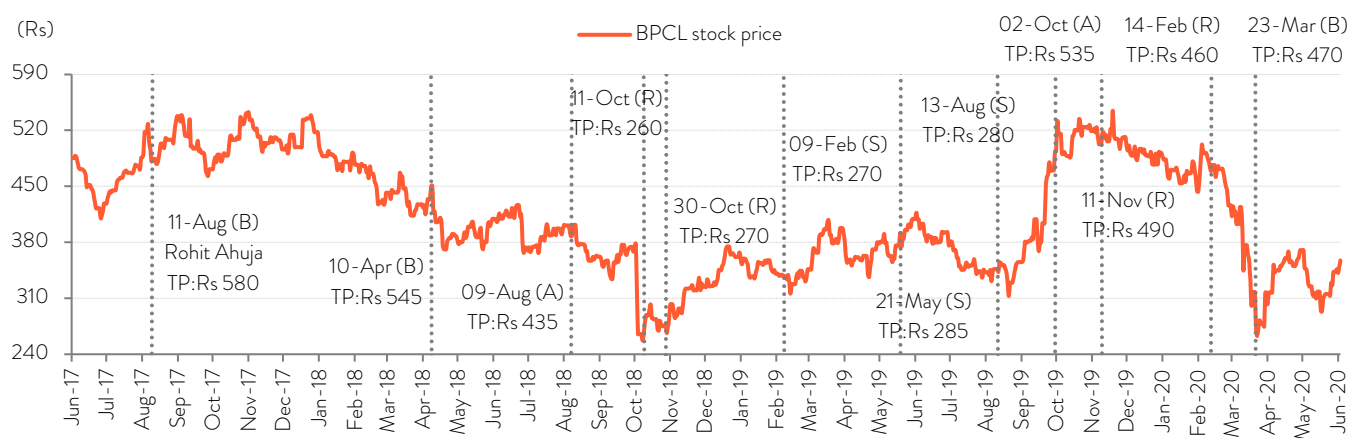
**ADD** – Expected return from >+5% to +15%

**REDUCE** – Expected return from -5% to +5%

**SELL** – Expected return <-5%

**Note:** Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

### HISTORICAL RATINGS AND TARGET PRICE: BHARAT PETROLEUM CORP (BPCL IN)



B – Buy, A – Add, R – Reduce, S – Sell

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