

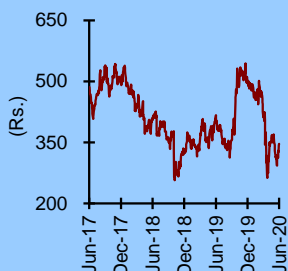
## Oil &amp; Gas

Target price: Rs361

## Shareholding pattern

	Sep '19	Dec '19	Mar '20
Promoters	53.3	53.0	53.0
Institutional			
investors	32.5	32.5	31.9
MFs and others	10.7	11.4	12.8
Banks / FIs	0.1	0.1	0.1
Insurance Cos.	7.1	6.9	6.7
FIs	14.6	14.1	12.3
Others	14.2	14.5	15.1

## Price chart



## Bharat Petroleum Corporation

HOLD

Maintained

Rs356

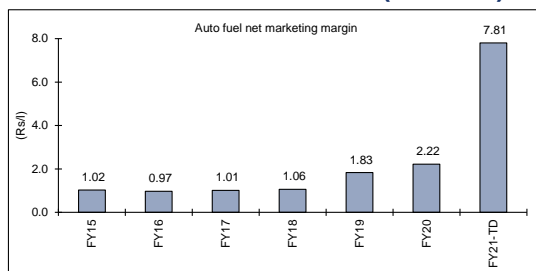
## Q4 earnings call takeaways

Key takeaways from Q4FY20 earnings call are:

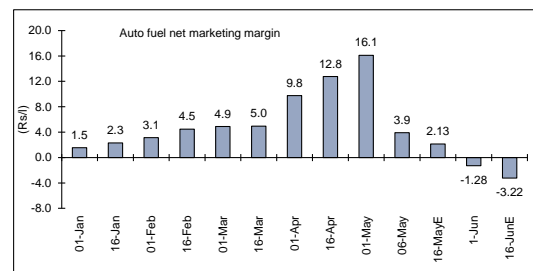
- ▶ **BPCL expects FY21E auto fuel marketing margin to be similar to that in FY19.** We estimate net margin was Rs1.8/l in FY19 and Rs2.2/l in FY20 vs Rs0.97-1.06/l in FY15-FY18. Net margin was Rs8.3/l in Apr-May'20, but is in the red in Jun'20-TD.

**BPCL expects FY21E marketing margin to be similar to that in FY19 (Rs1.83/l)**

**Net margin was Rs8.3/l in Apr-May'20, but is in the red in Jun'20-TD**



Source: Companies, Reuters, I-Sec research

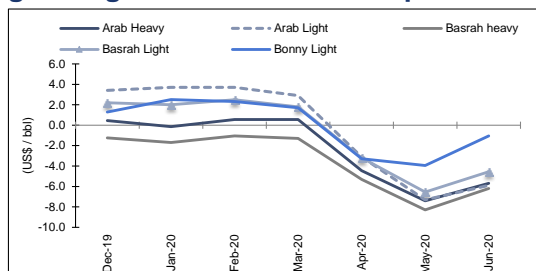


Source: Companies, Reuters, I-Sec research

- ▶ **BPCL enjoyed discount of US\$5-9/bbl on crudes in Apr-May'20, but now crudes are back at premium.** Iraq and Saudi Arabia, which accounted for 17% and 26% of its FY20 crude imports, offered US\$3.1-7.4/bbl discount on their crudes in Apr-Jun'20 vs premium or modest discount in Mar'20. Saudi and Iraq offered steep discounts on Jun'20 deliveries, but strong Chinese demand and OPEC+ supply cuts meant spot cargoes traded at premium to official selling prices (OSPs).

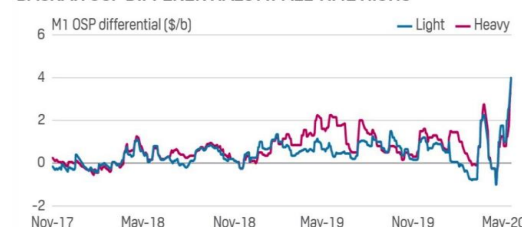
**Saudi & Iraq (43% of BPCL's imports) gave big discounts on oil in Apr-Jun'20**

**Iraqi crudes traded at premium of US\$4.5-4.8/bbl to OSP in spot market**



Source: Bloomberg, Reuters, I-Sec research

## BASRAH OSP DIFFERENTIALS AT ALL-TIME HIGHS



Source: S&amp;P Global Platts, I-Sec research

- ▶ **BPCL expects privatisation to happen in Dec'20 at the earliest.**
- ▶ **Group refining capacity utilisation is currently at 83% vs 60% in Apr'20.**
- ▶ **BPCL expects demand to rise to 90-95% (now 70%) of pre-Covid-19 level by Jul'20.**
- ▶ **BPCL expects Q4 debt of Rs478bn (Rs291bn in Q3) to go back to normal level by Q2FY21.** Subsidy dues from Gol were Rs48bn in Mar'20 vs Rs88bn in Mar'19.
- ▶ **Capex for FY21E has been cut from Rs125bn to Rs80bn-85bn.**
- ▶ **BPCL indicated entire cost of Euro-VI fuels may not be passed on to consumers.**

Market Cap	Rs775bn/US\$10.3bn
Reuters/Bloomberg	BPCL.BO/BPCL IN
Shares Outstanding (mn)	2,169.2
52-week Range (Rs)	545/263
Free Float (%)	46.7
FII (%)	12.3
Daily Volume (US\$'000)	43,185
Absolute Return 3m (%)	(9.4)
Absolute Return 12m (%)	(4.9)
Sensex Return 3m (%)	(11.3)
Sensex Return 12m (%)	(14.2)

Year to Mar	FY19	FY20	FY21E	FY22E
Revenue (Rs mn)	34,08,792	32,97,972	21,73,650	24,76,500
Net Income (Rs mn)	78,023	37,360	60,549	74,053
EPS (Rs)	39.7	16.8	30.8	37.6
% Chg YoY	-13.4%	-57.7%	83.5%	22.3%
P/E (x)	9.0	21.2	11.5	9.4
CFPS (Rs)	56.0	35.7	52.1	59.3
EV/E (x)	7.4	20.1	8.5	7.4
Dividend Yield (%)	4%	1%	2%	3%
RoCE (%)	15%	5%	10%	11%
RoE (%)	21%	10%	15%	15%

Please refer to important disclosures at the end of this report

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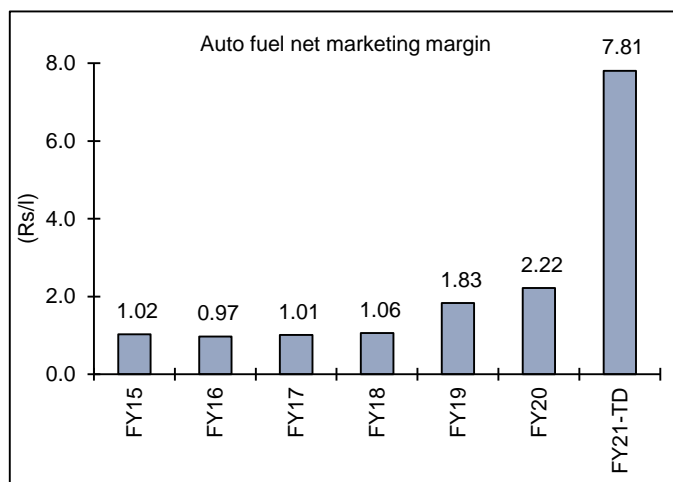
## BPCL earnings call takeaways

### FY21E marketing margin guided to be similar to that in FY19

Main takeaways from BPCL's Q4FY20 earnings call are:

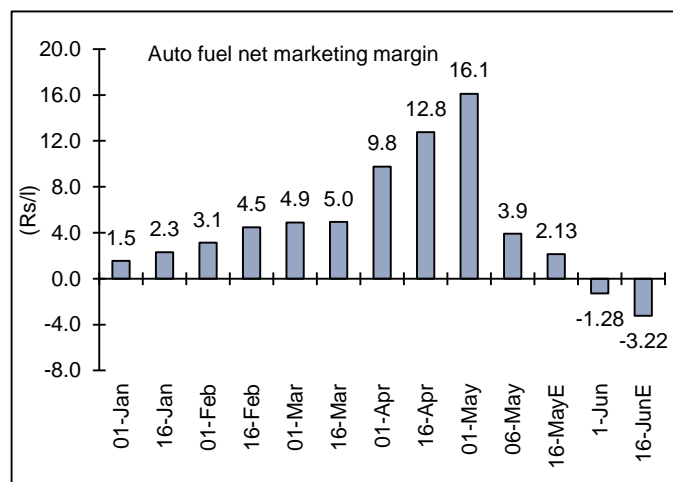
- BPCL expects FY21E auto fuel marketing margin to be similar to that in FY19 and suggested investors should ignore short-term volatility.** We estimate net margin was **Rs1.83/l in FY19 and Rs2.2/l in FY20** v/s Rs0.97-1.06/l in FY15-FY18. Net auto fuel marketing margin was Rs8.3/l in Apr-May'20 but plunged from Rs16.1/l on 5-May'20 to Rs3.9/l on 6-May'20 due to hike in excise duty on petrol and diesel by Rs10-13/l, which was absorbed by the OMCs. Surge in international prices thereafter, which was not passed on to consumers, has meant net margin is in the red at minus Rs1.28/l in 1-15 Jun'20 assuming 20% YoY decline in volumes. Based on prices in 1-4 Jun'20 net margin in 16-30 Jun'20 is estimated to go steeper in to the red at minus Rs3.22/l. We estimate Q1FY21E net marketing margin at Rs4.91/l assuming current domestic and international prices remain unchanged. **We are also optimistic that retail price hikes would be made before the 31-Jul'20 deadline for expression of interest (EoI) for BPCL privatisation as auto fuel marketing margins being at healthy level is crucial for success of BPCL's privatisation.**
- BPCL expects privatisation to happen earliest in Dec'20 and wants NRL stake sale to another oil PSU to happen at the same time as privatisation.**

**Chart 1: Net auto fuel marketing margin Rs1.8-2.2/l in FY19-FY20 vs Rs0.97-1.06/l in FY15-FY18**



Source: Companies, Reuters, Bloomberg, I-Sec research

**Chart 2: Net auto fuel marketing margin Rs8.3/l in Apr-May'20, but in the red in Jun'20-TD**

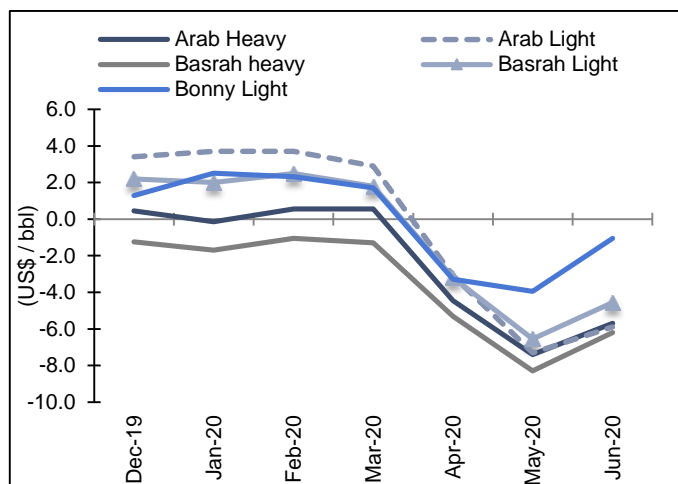


Source: Companies, Reuters, Bloomberg, I-Sec research

- BPCL enjoyed discount of US\$5-9/bbl on crudes in Apr-May'20 but now crudes are back at premium.** Abu Dhabi, Iraq and Saudi Arabia accounted for 14-15%, 17% and 26% respectively of its FY20 crude imports. Saudi Arabia offered US\$4.45-7.4/bbl discount to Dubai/Oman on Arab heavy and US\$3.1-7.3/bbl on Arab light in Apr-Jun'20 vs premium of US\$0.55-2.9/bbl in Mar'20 while Iraq offered discounts of US\$3.2-6.55/bbl on Basrah Light and US\$5.3-8.3/bbl on Basrah heavy in Apr-Jun'20 vs discount of US\$1.3/bbl and premium of US\$1.8/bbl in Mar'20. Discount on Bonny Light crude to which domestic crudes are benchmarked was US\$1.05-3.95/bbl in Apr-Jun'20 vs premium of US\$1.7/bbl in

Mar'20. However, **BPCL** said on the earnings call that crudes are trading at premium in Jun'20. BPCL appears to be referring to spot markets, where for Iraq's Basrah light and heavy crudes for Jun'20 loading to Asia the premium to OSP is at a record US\$4.5-4.8/bbl. Strong demand from Chinese refiners (utilisation of teapot refiners was at record level of over 75% in May'20) and OPEC+ supply cuts was driver of this premium to OSPs.

**Chart 3: Saudi & Iraq (43% of BPCL's FY20 imports) gave big discounts on crude in Apr-Jun**



Source: Bloomberg, Reuters, I-Sec research

**Chart 4: Iraq's Basrah Heavy & Light traded at premium of US\$4.5-4.8/bbl to OSP in spot market**

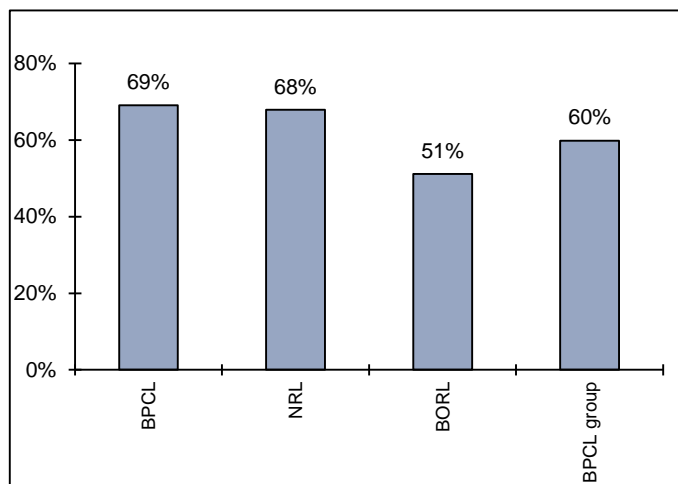
#### BASRAH OSP DIFFERENTIALS AT ALL-TIME HIGHS



Source: S&P Global Platts, I-Sec research

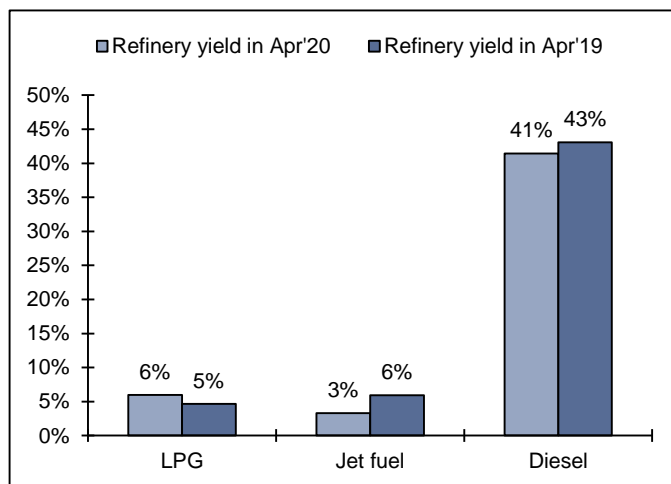
- Group refining capacity utilisation is currently at 83% vs 60% in Apr'20. As per PPAC data BPCL, NRL and BORL utilisation was 51-69% with group utilisation rate at 60%.

**Chart 5: BPCL group refineries' utilisation was at 60% in Apr'20; utilisation is up to 83% in early-Jun**



Source: PPAC, I-Sec research

**Chart 6: Indian refineries' LPG yield was up, jet fuel down sharply & diesel down modestly in Apr'20**



Source: PPAC, I-Sec research

- BPCL boosted LPG and diesel and reduced jet fuel yield in its refineries given the rise in LPG demand and collapse in jet fuel demand. As per PPAC data in Apr'20 industry LPG yield went up to 6.0% vs 4.7% in Apr'19 while jet fuel

yield fell from to 3.3% from 5.9%. As per PPAC data diesel yield also fell to 41.4% from 43.1%.

- **BPCL believes demand, which is currently at 70% of pre-Covid-19 levels, may rise to 90-95% of pre-Covid-19 level by Jul'20.**
- **BPCL expects debt, which had surged to Rs478bn in Q4 from Rs291bn in Q3, to come back to normal levels by Q2FY21.** Average debt in Q4FY20 was Rs320bn. Debt raised towards end of the quarter after the lockdown to support partners along the supply chain boosted debt.
- **BPCL's receivable from Gol towards subsidy are down from Rs88bn in Mar'19 to Rs48bn in Mar'20 and were at Rs54bn in Apr'20.**
- **Capex for FY21E has been cut from Rs125bn to Rs80-85bn mainly due to inability incur capex in Q1FY21-TD and to conserve cash flows.**
- **BPCL's refining JV BORL's Q4 and FY20 GRM was US\$2.5-5.6/bbl and profit Rs8.4-8bn while subsidiary NRL's Q4 and FY20 GRM excluding excise benefit was US\$2.9-8/bbl, including excise US\$17.0-24.5/bbl and profit Rs0.9-15.3bn.**
- **BPCL indicated that some cost of Euro VI was passed on to consumers but entire would not be.**

## Financial summary

Table 1: Profit &amp; loss statement

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
<b>Op. Income (Sales)</b>	<b>34,08,792</b>	<b>32,97,972</b>	<b>21,73,650</b>	<b>24,76,500</b>
<b>Operating Expenses</b>	<b>28,56,379</b>	<b>32,14,481</b>	<b>20,30,923</b>	<b>23,12,679</b>
<b>EBITDA</b>	<b>1,51,122</b>	<b>83,490</b>	<b>1,42,727</b>	<b>1,63,821</b>
% margins	4.4%	2.5%	6.6%	6.6%
Depreciation & Amortisation	-34,178	-40,801	-43,619	-46,237
Gross Interest	-17,640	-26,370	-32,900	-34,163
Other Income	20,375	19,293	16,278	13,703
<b>Recurring PBT</b>	<b>1,19,681</b>	<b>35,613</b>	<b>82,487</b>	<b>97,125</b>
Less: Taxes	75,905	29,458	58,858	70,408
<b>Net Income (Reported)</b>	<b>78,023</b>	<b>37,360</b>	<b>60,549</b>	<b>74,053</b>
<b>Recurring Net Income</b>	<b>78,023</b>	<b>30,554</b>	<b>60,549</b>	<b>74,052</b>

Source: Company data, I-Sec research

Table 2: Balance sheet

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
<b>Assets</b>				
Total Current Assets	5,41,907	3,97,244	4,29,021	4,49,384
of which cash & cash eqv.	6,625	11,648	82,725	80,997
Total Current Liabilities & Provisions	4,63,891	4,44,628	3,88,442	4,23,939
<b>Net Current Assets</b>	<b>78,016</b>	<b>-47,384</b>	<b>40,579</b>	<b>25,445</b>
<b>Investments</b>	<b>1,91,078</b>	<b>1,05,109</b>	<b>1,16,335</b>	<b>1,16,336</b>
<b>Net Fixed Assets</b>	<b>5,56,764</b>	<b>8,17,067</b>	<b>6,90,467</b>	<b>6,92,344</b>
Capital Work-in-Progress	72,929	1,77,567	1,64,814	2,39,814
<b>Total Assets</b>	<b>9,05,413</b>	<b>10,64,008</b>	<b>10,94,920</b>	<b>11,54,935</b>
<b>Liabilities</b>				
<b>Borrowings</b>	<b>4,29,145</b>	<b>6,16,482</b>	<b>5,40,190</b>	<b>5,55,190</b>
Equity Share Capital	19,669	19,669	19,669	19,669
Face Value per share (Rs)	10.0	10.0	10.0	10.0
Reserves & Surplus	3,22,842	2,98,029	3,88,734	4,22,066
<b>Net Worth</b>	<b>3,87,647</b>	<b>3,65,323</b>	<b>4,60,417</b>	<b>5,01,100</b>
<b>Total Liabilities</b>	<b>9,05,413</b>	<b>10,64,008</b>	<b>10,94,921</b>	<b>11,54,935</b>

Source: Company data, I-Sec research

Table 3: Quarterly trend

(Rs bn, year ending March 31)

	Jun'19	Sep'19	Dec'19	Mar'20
Net sales	858.6	743.1	853.7	813.0
% growth (YoY)	4	(10)	(3)	(3)
EBITDA	21.8	16.3	27.0	(6.2)
EBITDA Margin (%)	2.5	2.2	31.7	(7.6)
Other income	5.4	8.7	5.1	11.6
Extraordinary items	-	7.4	0.6	(12.7)
Net profit	10.8	9.6	12.0	(0.9)

Source: Company data, I-Sec research

Table 4: Cashflow statement

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
<b>Operating Cashflow</b>	<b>1,10,083</b>	<b>70,259</b>	<b>1,02,477</b>	<b>1,16,645</b>
Working Capital Changes	61,650	(1,25,400)	87,963	(15,134)
<b>Operating Cashflow</b>	<b>48,433</b>	<b>1,95,659</b>	<b>14,515</b>	<b>1,31,779</b>
Capital Commitments	(57,056)	(2,21,262)	(38,311)	(1,26,067)
<b>Cashflow from Investing Activities</b>	<b>(4,065)</b>	<b>(1,35,293)</b>	<b>(49,537)</b>	<b>(1,26,067)</b>
Inc (Dec) in Borrowings	59,172	1,87,337	(76,292)	15,000
Dividend paid	28,830	6,653	17,741	19,959
<b>Cashflow from Financing Activities</b>	<b>30,343</b>	<b>1,80,684</b>	<b>(94,033)</b>	<b>(4,959)</b>
<b>Chg. in Cash &amp; Bank balances</b>	<b>74,710</b>	<b>2,41,049</b>	<b>(1,29,056)</b>	<b>753</b>

Source: Company data, I-Sec research

Table 5: Key ratios

(Year ending March 31)

	FY19	FY20	FY21E	FY22E
<b>Per Share Data (Rs)</b>				
EPS (Basic Recurring)*	39.7	16.8	30.8	37.6
Diluted Recurring EPS	39.7	16.8	30.8	37.6
Recurring Cash flow per share	56.0	35.7	52.1	59.3
Dividend per share (DPS)	13.0	3.0	8.0	9.0
Book Value per share (BV)	197.1	185.7	234.1	254.8
<b>Growth Ratios (%)</b>				
Operating Income	22.0	-3.3	-34.1	13.9
EBITDA	-0.4	-44.8	71.0	14.8
Recurring Net Income	-13.4	-60.8	98.2	22.3
Diluted Recurring EPS	-13.4	-57.7	83.5	22.3
Cash flow per share	-3.3	-36.2	45.9	13.8
<b>Valuation Ratios (x)</b>				
P/E	9.0	21.2	11.5	9.4
P/CEPS	6.4	9.9	6.8	6.0
P/BV	1.8	1.9	1.5	1.4
EV / EBITDA	7.4	20.1	8.5	7.4
EV / Operating Income	5.8	7.4	20.1	8.5

**Operating Ratios**

Other Income / PBT (%)	17.0	54.2	19.7	14.1
Effective Tax Rate (%)	36.6	17.3	28.6	27.5
NWC / Total Assets (%)	8.6	-4.5	3.7	2.2
D/E Ratio (%)	110.7	168.7	117.3	110.8

**Return/Profitability Ratios (%)**

Recurring Net Income Margins	15.1	4.7	10.0	11.4
RoCE	20.7	9.9	14.7	15.4
RoNW	35.9	30.5	34.2	33.2
Dividend Payout Ratio	3.7	0.8	2.3	2.5
Dividend Yield	4.4	2.5	6.6	6.6
EBITDA Margins	5.4	4.4	3.9	5.4

\*EPS calculated net of treasury shares as per Ind AS regulation

Source: Company data, I-Sec research

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