

February 9, 2021

Q3FY21 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	BUY		BUY	
Target Price	505		479	
Sales (Rs. m)	27,42,219	31,88,178	27,42,221	31,89,703
% Chng.	-	-	-	-
EBITDA (Rs. m)	1,58,749	1,65,658	1,58,751	1,67,182
% Chng.	-	(0.9)	-	-
EPS (Rs.)	52.8	58.0	50.0	55.8
% Chng.	5.7	3.9	-	-

Key Financials - Standalone

Y/e Mar	FY20	FY21E	FY22E	FY23E
Sales (Rs. bn)	2,846	1,969	2,742	3,188
EBITDA (Rs. bn)	83	161	159	166
Margin (%)	2.9	8.2	5.8	5.2
PAT (Rs. bn)	37	100	104	114
EPS (Rs.)	18.6	50.9	52.8	58.0
Gr. (%)	(57.0)	173.3	3.7	9.8
DPS (Rs.)	18.2	22.4	20.1	20.2
Yield (%)	4.3	5.3	4.8	4.8
RoE (%)	9.2	22.8	21.0	20.4
RoCE (%)	4.9	12.1	10.4	10.2
EV/Sales (x)	0.5	0.5	0.4	0.3
EV/EBITDA (x)	15.3	6.7	6.7	6.0
PE (x)	22.6	8.3	8.0	7.3
P/BV (x)	2.0	1.8	1.6	1.4

Key Data

BPCL.BO | BPCL IN

52-W High / Low	Rs.496 / Rs.252
Sensex / Nifty	51,329 / 15,109
Market Cap	Rs.910bn/ \$ 12,481m
Shares Outstanding	2,169m
3M Avg. Daily Value	Rs.7209.34m

Shareholding Pattern (%)

Promoter's	54.98
Foreign	11.56
Domestic Institution	20.07
Public & Others	13.39
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	4.8	(0.1)	(14.7)
Relative	(0.4)	(26.0)	(31.6)

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Operationally strong results

Quick Pointers:

- High marketing profitability masks weak refining performance.
- Benign crude oil prices likely to support marketing margins and earnings.

We change our FY23E earnings estimates by 32% to incorporate inventory gains of Rs37.8bn in 9MFY21 and make minor changes; FY22/23 earnings are changed by 6%/4%. During Q3FY21, core standalone EBIDTA adjusted for inventory gains and forex gains was at Rs34.6bn (+178%QoQ) due to higher marketing earnings. We believe uncertain global demand and high inventory levels will likely keep crude oil prices range bound to support marketing margins in medium term. Meanwhile GRMs will recover with pickup in economic activity and lower operating cost (due to soft spot LNG prices) will support refining earnings. BPCL remains one of our preferred divestment play in the oil and gas sector. Maintain BUY with a TP of Rs505 (Rs479 earlier).

- Operationally strong results:** BPCL reported results lower than our estimates with standalone EBITDA of Rs43.0bn (+59%YoY; PLe Rs48.6bn) and PAT of Rs31.9bn (+154%YoY; PLe Rs33.4bn). However, adjusted for lower than estimated inventory gains of Rs7.7bn (PLe Rs17.5bn) and forex gains, EBITDA was at Rs34.6bn (+53%YoY). During Q3, BPCL also provided Rs4.2bn for VRS charges.
- Refining margins were weak, in line with global trends:** BPCL's refining margins for Q3 came in at US\$2.5/bbl (Q2FY21 at US\$5.8/bbl) and included inventory gains of US\$1.3/bbl. For Q3, refining throughput was higher at 7.24MTPA vis-à-vis 5.634MTPA in Q2. BPCL's GRMs are likely to remain under pressure due to **1) uncertain global demand scenario 2) new capacity addition.**
- Marketing profitability support earnings:** BPCL's core Q3 marketing EBIDTA was at Rs36.2bn against Rs13.7bn in Q2FY21. Profitability was supported by higher margins and volumes. For Q3, marketing margins were at Rs3,186/ton (Rs1,485/ton in Q2FY21). BPCL's marketing volumes vis-à-vis the industry run rate improved with HSD (0.4% YoY vs -1.1% for industry) and MS (6.6% YoY against industry rate of 6.3%YoY) respectively.
- Reiterate BUY:** BPCL remains one of our preferred pics in the oil and gas sector given higher share of marketing to refining - Q3 marketing sales were at 11.3MTPA vs refining volumes of ~7.2MTPA. Also BPCL remains our preferred divestment play. Reiterate BUY with a revised PT of Rs505 (Rs479 earlier) based on 9x FY22E PER and add value of investment and E&P.

Exhibit 1: Standalone Q3FY21 Result Overview (Rs mn)

Y/e March	Q3FY21	Q3FY20	YoY gr. (%)	Q2FY21	9MFY21	9MFY20	YoY gr. (%)
Net sales	8,65,800	8,53,683	1.4	6,59,125	20,31,094	24,62,846	(17.5)
Inc/dec in stock	810	32,887	(97.5)	-13,519	-8,436	20,534	(141.1)
Raw material cons	1,88,020	2,92,865	(35.8)	1,45,110	4,25,514	8,53,403	(50.1)
Staff cost	8,695	8,934	(2.7)	15,720	33,443	27,607	21.1
Purchases	3,87,418	3,43,350	12.8	2,80,779	8,77,762	10,56,190	(16.9)
Duties, taxes, etc	1,98,486	1,06,355	86.6	1,57,661	4,74,466	3,08,930	53.6
Other expenditure	39,314	42,259	(7.0)	34,864	1,07,618	1,23,537	(12.9)
Exp	-8,22,742	-8,26,650	NA	-6,20,613	-19,10,366	-23,90,201	NA
Operating profit	43,058	27,034	59.3	38,512	1,20,728	72,645	66.2
Interest	-2,510	-5,121	NA	-126	-8,508	-16,033	NA
Depreciation	-9,936	-9,731	NA	-9,888	-29,783	-28,458	NA
Other income	15,146	5,148	194.2	5,726	26,804	19,246	39.3
Profit before tax	45,757	17,330	164.0	34,223	1,09,242	47,399	130.5
Current tax	-8,056	-4,724	NA	-6,330	-19,356	-4,187	NA
Profit after tax	37,701	12,606	199.1	27,893	89,886	43,212	108.0
Exceptional	-5,730	-	NA	-4,170	-13,430	-2,770	384.8
Reported PAT	31,971	12,606	153.6	23,723	76,456	40,442	89.1

Source: Company, PL

Exhibit 2: BPCL quarterly details

	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21
Refining thruput (MTPA)	7.57	7.49	7.45	7.66	8.41	8.39	5.14	5.63	7.24
GRMs (USD/bbl)	6	3	3	3.4	3.2	0.8	0.4	5.8	2.5
Inventory gains/loss (Rs m)									
Marketing	5,390	(20,410)	(1,270)	1,490	820	(12,570)	10,030	11,500	2,690
Refining	8,960	(12,920)	(3,250)	(1,750)	4,550	(25,65)	(4,380)	13,030	5,020
Forex gains/loss (Rs m)	(9,300)	6,590	310	(3,863)	(960)	(12,110)	(566)	1,520	751
Gross debt (Rs m)	239,550	227,670	306,470	317,560	301,340	478,190	4,05,460	2,78,480	2,46,740

Source: Company, PL

Exhibit 3: BPCL's core EBIDTA was down 55%YoY

	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21
EBIDTA breakup	7,374	48,050	21,799	23,749	27,034	(6,189)	39,158	38,512	43,058
Adj for forex	6,590	2,750		(3,863)	(960)	(12,110)	(566)	1,520	751
Adj for inventory	(33,330)	3,560	(4,520)	(260)	5,370	(38,220)	5,650	24,530	7,710
Core EBIDTA	34,114	41,740	26,319	27,872	22,624	44,142	34,074	12,462	34,597
Marketing	31,026	38,605	23,244	22,417	17,225	24,133	34,360	13,690	36,163
Refining	3,088	3,135	3,074	5,455	5,399	20,009	(286)	(1,228)	(1,567)

Source: Company, PL



Conference Call Highlights:

- BPCL capex increased to Rs90bn for FY21 and Rs100bn for FY22E.
- Government dues pending stands at Rs22bn as on Q3 end vs Rs66bn in Q4FY20 end.
- Q2 end debt stands at Rs246.7bn excluding Rs62bn for lease obligation.
- In 9MFY21, BPCL had opened 1,692 retail outlets and plans to open 2,000 outlets in FY22E.
- The NRL refinery divestment valuation process is currently going on and will likely conclude by FY21 end.
- For Q3, BORL GRM/PAT was at \$2/bbl and -Rs2.1bn while NRL GRM/PAT was at \$37/bbl and Rs8.3bn.

Financials

Income Statement (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Net Revenues	28,45,719	19,69,473	27,42,219	31,88,178
YoY gr. (%)	(4.6)	(30.8)	39.2	16.3
Cost of Goods Sold	25,36,652	15,82,846	23,23,890	27,46,574
Gross Profit	3,09,067	3,86,627	4,18,329	4,41,604
Margin (%)	10.9	19.6	15.3	13.9
Employee Cost	-	-	-	-
Other Expenses	-	-	-	-
EBITDA	83,490	1,60,586	1,58,749	1,65,658
YoY gr. (%)	(44.8)	92.3	(1.1)	4.4
Margin (%)	2.9	8.2	5.8	5.2
Depreciation and Amortization	40,801	46,892	58,077	62,396
EBIT	42,689	1,13,694	1,00,672	1,03,262
Margin (%)	1.5	5.8	3.7	3.2
Net Interest	26,370	12,696	14,334	12,256
Other Income	19,293	37,052	57,846	61,821
Profit Before Tax	22,509	1,38,050	1,44,184	1,52,827
Margin (%)	0.8	7.0	5.3	4.8
Total Tax	(142)	35,353	33,338	31,645
Effective tax rate (%)	(0.6)	25.6	23.1	20.7
Profit after tax	22,651	1,02,697	1,10,846	1,21,182
Minority interest	(14,007)	2,499	6,973	7,104
Share Profit from Associate	-	-	-	-
Adjusted PAT	36,657	1,00,198	1,03,873	1,14,078
YoY gr. (%)	(57.0)	173.3	3.7	9.8
Margin (%)	1.3	5.1	3.8	3.6
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	36,657	1,00,198	1,03,873	1,14,078
YoY gr. (%)	(57.0)	173.3	3.7	9.8
Margin (%)	1.3	5.1	3.8	3.6
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	36,657	1,00,198	1,03,873	1,14,078
Equity Shares O/s (m)	1,967	1,967	1,967	1,967
EPS (Rs)	18.6	50.9	52.8	58.0

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Non-Current Assets				
Gross Block	8,87,558	9,57,058	10,36,558	10,96,058
Tangibles	8,87,558	9,57,058	10,36,558	10,96,058
Intangibles	-	-	-	-
Acc: Dep / Amortization	1,68,620	2,19,286	2,81,259	3,47,673
Tangibles	1,68,620	2,19,286	2,81,259	3,47,673
Intangibles	-	-	-	-
Net fixed assets	7,18,938	7,37,772	7,55,299	7,48,385
Tangibles	7,18,938	7,37,772	7,55,299	7,48,385
Intangibles	-	-	-	-
Capital Work In Progress	1,04,547	24,535	25,576	26,722
Goodwill	2,631	2,631	2,631	2,631
Non-Current Investments	1,70,313	1,86,701	2,04,728	2,24,557
Net Deferred tax assets	(60,418)	(71,119)	(83,818)	(1,00,577)
Other Non-Current Assets	13,536	942	1,036	1,140
Current Assets				
Investments	60,041	66,045	72,649	79,914
Inventories	2,49,951	1,56,875	2,19,738	2,65,034
Trade receivables	72,244	45,433	64,277	79,771
Cash & Bank Balance	1,020	1,68,946	1,54,283	1,92,692
Other Current Assets	16,312	17,943	19,738	21,711
Total Assets	14,96,892	15,03,917	16,25,659	17,58,830
Equity				
Equity Share Capital	19,669	19,669	19,669	19,669
Other Equity	3,93,545	4,46,669	5,04,364	5,73,764
Total Networkth	4,13,214	4,66,337	5,24,033	5,93,432
Non-Current Liabilities				
Long Term borrowings	2,93,701	2,61,312	2,33,878	2,09,417
Provisions	15,956	17,552	19,307	21,238
Other non current liabilities	3,817	4,199	4,619	5,081
Current Liabilities				
ST Debt / Current of LT Debt	2,19,365	2,23,580	2,28,217	2,33,317
Trade payables	1,51,093	94,952	1,32,947	1,59,557
Other current liabilities	3,20,449	3,46,631	3,81,295	4,19,344
Total Equity & Liabilities	15,25,801	15,18,205	16,36,657	17,71,370

Source: Company Data, PL Research



Cash Flow (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
PBT	35,612	1,38,050	1,44,184	1,52,827
Add. Depreciation	40,801	46,892	58,077	62,396
Add. Interest	26,370	12,696	14,334	12,256
Less Financial Other Income	19,293	37,052	57,846	61,821
Add. Other	(6,502)	20,554	9,592	13,340
Op. profit before WC changes	96,281	2,18,193	2,26,187	2,40,819
Net Changes-WC	23,769	79,561	(20,452)	(8,675)
Direct tax	(3)	(24,133)	(25,096)	(25,311)
Net cash from Op. activities	1,20,047	2,73,621	1,80,640	2,06,833
Capital expenditures	(1,61,954)	3,724	(88,263)	(69,407)
Interest / Dividend Income	-	-	-	-
Others	878	(288)	(317)	(348)
Net Cash from Inv. activities	(1,61,075)	3,436	(88,580)	(69,755)
Issue of share cap. / premium	50,847	(32,856)	(26,747)	(18,480)
Debt changes	83,921	(28,175)	(22,797)	(19,360)
Dividend paid	(42,017)	(44,022)	(39,530)	(39,767)
Interest paid	(26,370)	(12,696)	(14,334)	(12,256)
Others	-	-	-	-
Net cash from Fin. activities	66,381	(1,17,749)	(1,03,408)	(89,863)
Net change in cash	25,354	1,59,308	(11,348)	47,215
Free Cash Flow	(41,906)	2,77,345	92,377	1,37,426

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q4FY20	Q1FY21	Q2FY21	Q3FY21
Net Revenue	6,89,914	3,87,851	5,01,464	6,67,314
YoY gr. (%)	(6.8)	(49.2)	(22.1)	(10.7)
Raw Material Expenses	6,29,243	3,06,223	4,12,369	5,76,248
Gross Profit	60,672	81,628	89,095	91,066
Margin (%)	8.8	21.0	17.8	13.6
EBITDA	(6,189)	39,158	38,512	43,058
YoY gr. (%)	(112.9)	79.6	61.7	59.3
Margin (%)	(0.9)	10.1	7.7	6.5
Depreciation / Depletion	9,474	9,959	9,888	9,936
EBIT	(15,663)	29,200	28,624	33,122
Margin (%)	(2.3)	7.5	5.7	5.0
Net Interest	5,786	5,871	126	2,510
Other Income	11,567	5,933	5,726	15,146
Profit before Tax	(20,689)	29,262	34,223	45,757
Margin (%)	(3.0)	7.5	6.8	6.9
Total Tax	3,730	8,500	10,500	13,786
Effective tax rate (%)	(18.0)	29.0	30.7	30.1
Profit after Tax	(24,419)	20,762	23,723	31,971
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	(35,227)	20,762	22,478	27,776
YoY gr. (%)	(212.7)	93.1	13.2	120.3
Margin (%)	(5.1)	5.4	4.5	4.2
Extra Ord. Income / (Exp)	10,808	-	1,246	4,195
Reported PAT	(24,419)	20,762	23,723	31,971
YoY gr. (%)	(178.1)	93.1	19.5	153.6
Margin (%)	(3.5)	5.4	4.7	4.8
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	(24,419)	20,762	23,723	31,971
Avg. Shares O/s (m)	-	-	-	-
EPS (Rs)	-	-	-	-

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY20	FY21E	FY22E	FY23E
Per Share(Rs)				
EPS	18.6	50.9	52.8	58.0
CEPS	39.4	74.8	82.3	89.7
BVPS	210.1	237.1	266.4	301.7
FCF	(21.3)	141.0	47.0	69.9
DPS	18.2	22.4	20.1	20.2
Return Ratio(%)				
RoCE	4.9	12.1	10.4	10.2
ROIC	3.0	9.0	7.2	6.9
RoE	9.2	22.8	21.0	20.4
Balance Sheet				
Net Debt : Equity (x)	1.1	0.5	0.4	0.3
Net Working Capital (Days)	22	20	20	21
Valuation(x)				
PER	22.6	8.3	8.0	7.3
P/B	2.0	1.8	1.6	1.4
P/CEPS	10.7	5.6	5.1	4.7
EV/EBITDA	15.3	6.7	6.7	6.0
EV/Sales	0.5	0.5	0.4	0.3
Dividend Yield (%)	4.3	5.3	4.8	4.8

Source: Company Data, PL Research

Key Operating Metrics

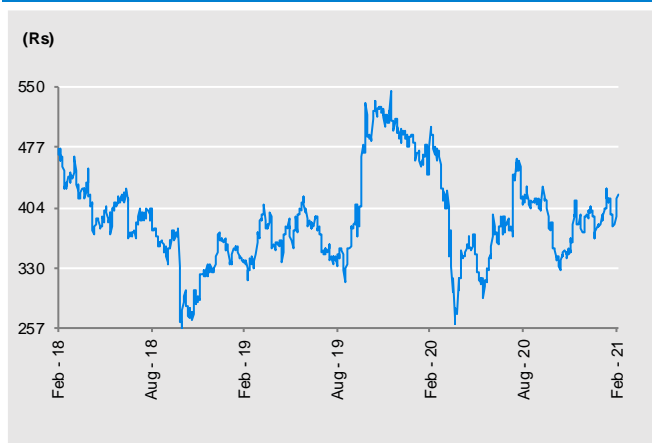
Y/e Mar	FY20	FY21E	FY22E	FY23E
Crude /bbl	61	45	55	60
US\$/Rs	71	74	77	79
GRM (US\$/bbl)	6	4	5	5
Refining volume (MTPA)	31	26	30	31

Source: Company Data, PL Research



Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	08-Jan-21	BUY	479	392
2	30-Oct-20	BUY	479	342
3	07-Oct-20	BUY	515	342
4	14-Aug-20	BUY	515	413
5	07-Jul-20	BUY	515	380
6	04-Jun-20	BUY	515	357
7	08-Apr-20	BUY	517	342
8	14-Feb-20	BUY	537	469

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Aarti Industries	BUY	1,314	1,159
2	Bharat Petroleum Corporation	BUY	479	392
3	GAIL (India)	UR	-	133
4	Gujarat Gas	BUY	528	380
5	Hindustan Petroleum Corporation	BUY	315	230
6	Indian Oil Corporation	BUY	124	96
7	Indraprastha Gas	BUY	603	540
8	Mahanagar Gas	BUY	1,275	1,117
9	NOCIL	BUY	182	143
10	Oil & Natural Gas Corporation	BUY	114	98
11	Oil India	Accumulate	117	113
12	Petronet LNG	BUY	399	260
13	Reliance Industries	BUY	2,232	2,050

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly



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