

Divestment to drive stock performance...

Bharat Petroleum Corporation (BPCL) reported Q4FY21 results that were better than our estimates on the profitability front on account of inventory and exceptional gains. Revenues increased 14.1% QoQ to ₹ 98755.6 crore, against our estimates of ₹ 100818 crore. Marketing sales at 11.2 MMT were marginally better than estimated. Reported GRMs at US\$6.6/bbl (our estimate: US\$4/bbl) were lifted by inventory gain of US\$4.2/bbl. Subsequently, EBITDA at ₹ 5057.9 crore (up 17.5% QoQ) was higher than our estimate of ₹ 3006.1 crore. The company reported an exceptional gain of ₹ 6993 crore. Consequently, reported PAT was at ₹ 11940.1 crore, up 329.9% QoQ (our estimate: ₹ 1881.8 crore).

Inventory gains supports operational performance

Crude oil prices sharply increased during the quarter on expectations of a global demand recovery. Average crude oil prices increased by US\$16.1/bbl to US\$60.7/bbl while Brent crude oil prices on a closing basis jumped US\$11.2/bbl QoQ to US\$62.4/bbl. BPCL reported marketing inventory gain of ₹ 1829 crore. However, core marketing margins reduced QoQ as higher crude oil costs were not fully passed on to customers. In terms of marketing sales, BPCL reported growth of 4.1% YoY to 11.2 MMT, marginally above our estimates. Going forward, we expect marketing sales volume at 42.7 MMT, 46.8 MMT in FY22E, FY23E, respectively, taking into account partial closure of activities in Q1FY22E. Crude throughput in Q4FY21 was flat YoY at 8.4 MMT, above our estimates. Going forward, we estimate throughput of 29.7 MMT, 32.6 MMT for FY22E, FY23E, respectively.

Core GRM improvement important

Reported GRMs were at US\$6.6/bbl, higher than our estimate of US\$4/bbl. The company's core GRMs were at US\$2.5/bbl while inventory gain was at US\$4.2/bbl. Benchmark Singapore GRMs have improved QoQ in the current quarter (Q1FY22-TD) and further recovery in global demand will be important for improvement in product cracks (mainly diesel). We estimate GRM at US\$3.9/bbl and US\$4.5/bbl for FY22E and FY23E, respectively.

Valuation & Outlook

While marketing sales reached near normal level in Q4FY21, second wave of Covid-19 and subsequent movement restrictions led to reduction in fuel demand. This has affected capacity utilisation as well that reduced up to 86-87% in May. Improvement in global product cracks and further recovery in fuel demand will be important for BPCL's profitability in the near term. The progress on divestment, response by bidders and subsequent valuation ascertained to the company will be a key monitorable and will drive stock price. We roll over valuations to FY23E and maintain **HOLD** recommendation on the stock with a target price of ₹ 495 based on average of P/BV multiple and P/E multiple at ₹ 495/share each (earlier TP: ₹ 350).

Key Financial Summary

(Year-end March)	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY20-23E)
Revenues (₹ crore)	337,495.3	327,580.8	301,865.0	391,807.7	425,785.9	9.1
EBITDA (₹ crore)	11,837.0	6,639.3	17,130.6	11,950.6	14,008.0	28.3
Net Profit (₹ crore)	7,132.0	2,683.2	19,041.7	6,592.6	8,163.3	44.9
EPS (₹)	36.3	13.6	91.0	31.5	39.0	
P/E (x)	13.0	34.6	5.2	15.0	12.1	
Price / Book (x)	2.5	2.8	1.8	2.3	2.1	
EV/EBITDA (x)	10.3	21.2	7.5	10.4	8.5	
RoCE (%)	13.1	3.5	14.7	9.9	12.1	
RoE (%)	19.4	8.1	35.6	15.1	17.4	

Source: Company, ICICI Direct Research



Particulars

Particular	Amount
Market Capitalization (₹Crore)	92,836.7
Total Debt (FY 20) (₹Crore)	47,818.7
Cash and Investments (FY 20)	115.8
EV (₹Crore)	140,539.6
52 week H/L	488/320
Equity capital (₹Crore)	1,966.9
Face value (₹)	10.0

Key Highlights

- Results were better than our estimates on profitability front due to inventory and exceptional gains
- Marketing segment volumes expected to be lower due to second wave of Covid-19
- Maintain HOLD rating on stock with target price of ₹ 495/share

Key risks to our call

- Weaker than estimated GRMs will lead to lower-than-expected earnings
- Faster than expected recovery in demand and marketing margin will result in higher profitability

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Exhibit 1: Variance Analysis

	Q4FY21	Q4FY21E	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	Comments
Total Revenues	98,755.6	100,818	81,296.2	21.5	86,580.0	14.1	
Raw materials costs	28,602.2	26,684.1	27,889.0	2.6	18,802.0	52.1	
Employees Cost	1,132.8	958.7	930.8	21.7	869.5	30.3	
Other Expenses	63,962.8	70,168.8	53,095.3	20.5	62,602.7	2.2	
Total Expenditure	93,697.8	97,811.7	81,915.1	14.4	82,274.2	13.9	
EBITDA	5,057.9	3,006.1	-618.8	-917.3	4,305.8	17.5	Better than expected on account of inventory gains
EBITDA margins (%)	5.1	3.0	-0.8	588 bps	5.0	15 bps	
Depreciation	999.8	1,026.3	947.4	5.5	993.6	0.6	
EBIT	4,058.1	1,979.8	-1,566.3	-359.1	3,312.2	22.5	
Interest	477.6	481.6	578.6	-17.4	251.0	90.3	
Other Income	1,664.0	1,017.6	1,156.8	43.9	1,514.6	9.9	Higher than estimates
Extra Ordinary Item	6,993.0	0.0	-1,080.8	NA	-419.5	NA	Exceptional gains on account of gains from stake sale in subsidiary and impairment loss on investment in an upstream subsidiary
PBT	12,237.4	2,515.8	-2,068.9	-691.5	4,156.2	194.4	
Total Tax	297.3	634.0	-707.9	-142.0	1,378.6	-78.4	
PAT	11,940.1	1,881.8	-1,361.0	-977.3	2,777.6	329.9	Inventory and exceptional gains led to higher than estimated profits
Key Metrics							
Exchange rate (₹/\$)	72.9	72.9	72.5	0.6	73.8	-1.2	
Throughput (mmt)	8.4	8.1	8.4	0.0	7.2	15.9	Higher than expected
Sales (mmt)	11.2	11.0	10.7	4.1	11.1	0.6	
GRM (\$/barrel)	6.6	4.0	0.8	785.3	2.5	168.8	Reported GRMs ahead of estimates. Core GRMs at US\$2.5/bbl and inventory gain at US\$4.2/bbl

Source: Company, ICICI Direct Research

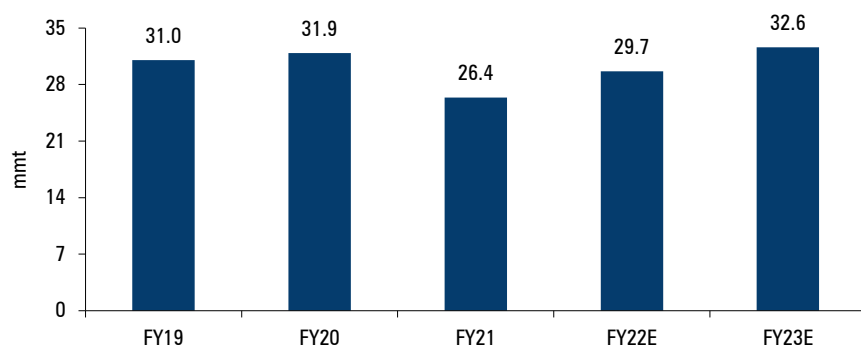
Exhibit 2: Assumptions

	Current				Earlier		Comments
	FY20	FY21	FY22E	FY23E	FY22E	FY23E	
Exchange rate (₹/\$)	70.9	74.0	73.5	73.5	75.0	NA	
Throughput (mmt)	31.9	26.4	29.7	32.6	32.3	NA	Reduced FY22E throughput estimates due to lower capacity utilisation in Q1FY22E
Sales (mmt)	43.1	38.7	42.7	46.8	44.3	NA	Lower FY22E sales estimate taking into account second wave of Covid-19
GRM (\$/barrel)	2.5	4.1	3.9	4.5	3.9	NA	

Source: Company, ICICI Direct Research

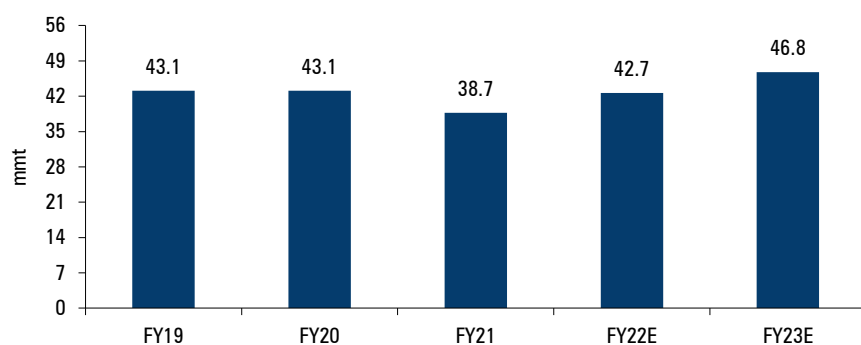
Story in charts

Exhibit 3: Oil throughput trend



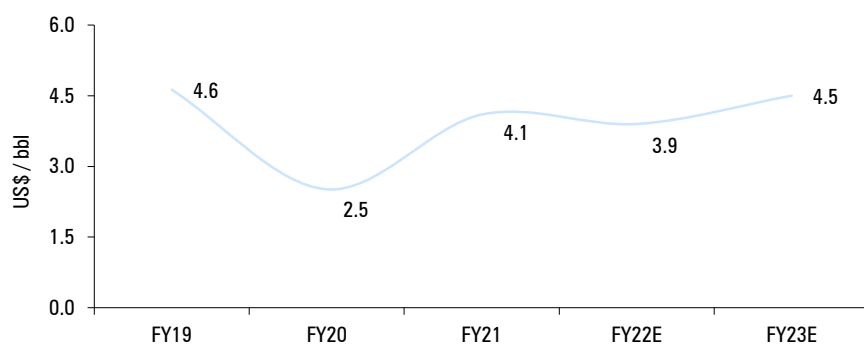
Source: Company, ICICI Direct Research

Exhibit 4: Marketing sales volume trend



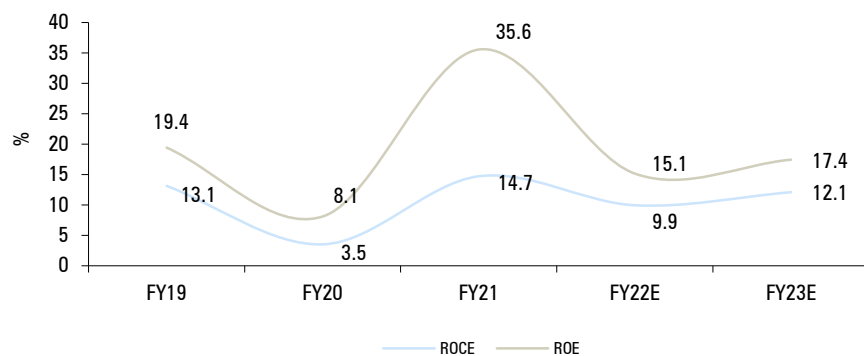
Source: Company, ICICI Direct Research

Exhibit 5: Refining margin trend



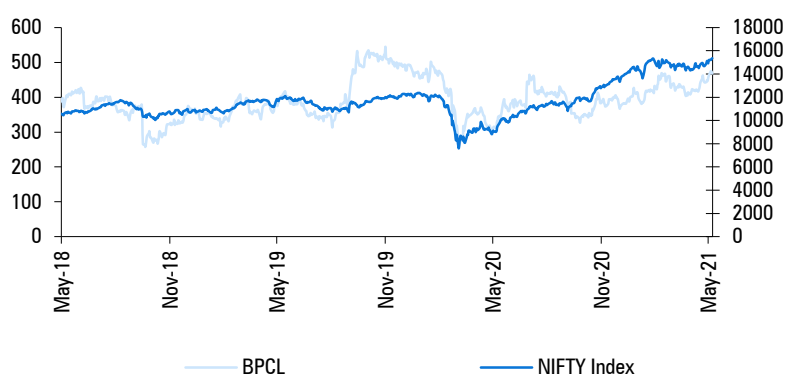
Source: Company, ICICI Direct Research

Exhibit 6: Return ratios trend



Source: Company, ICICI Direct Research

Exhibit 7: Price Performance



Source: Company, ICICI Direct Research

Exhibit 8: Shareholding Pattern

(in %)	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Promoter	53.0	53.0	53.0	53.0	53.0
FII	12.3	12.0	12.0	11.6	12.4
DII	19.6	20.5	20.6	20.1	23.3
Others	15.1	14.6	14.5	15.4	11.3

Source: Company, ICICI Direct Research

Financial summary

Exhibit 9: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Revenue	327580.8	301865.0	391807.7	425785.9
Growth (%)	-2.9	-7.9	29.8	8.7
(Inc.)/(Dec.) in stock in trade	-456.6	-3633.6	0.0	0.0
Raw material Costs	113229.3	71153.6	101338.5	111421.0
Purchase of Products	143164.3	127800.9	220022.4	241304.4
Employee Costs	3691.5	4477.2	3917.4	4053.6
Other Expenditure	61313.1	84936.3	54578.9	54998.8
Op. Expenditure	320941.5	284734.4	379857.1	411777.9
EBITDA	6639.3	17130.6	11950.6	14008.0
Growth (%)	-43.9	158.0	-30.2	17.2
Depreciation	3786.9	3978.1	4403.2	4853.3
EBIT	2852.4	13152.6	7547.4	9154.8
Interest	2181.9	1328.4	1873.8	1681.3
Other Income	2000.5	10793.4	3140.0	3440.0
PBT	2671.0	22617.6	8813.6	10913.5
Growth (%)	-74.4	746.8	-61.0	23.8
Tax	-12.2	3575.9	2221.0	2750.2
Reported PAT	2683.2	19041.7	6592.6	8163.3
Growth (%)	-62.4	609.7	-65.4	23.8
EPS	13.6	91.0	31.5	39.0

Source: Company, ICICI Direct Research

Exhibit 10: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Profit after Tax	2,683.2	19,041.7	6,592.6	8,163.3
Add: Depreciation	3,786.9	3,978.1	4,403.2	4,853.3
Add: Others	-201.7	-1,495.7	50.0	50.0
Cash Profit	34.8	2,179.2	6,638.1	8,169.1
Increase/(Decrease) in CL	-4,401.6	7,373.5	12,013.2	5,265.9
(Increase)/Decrease in CA	2,396.0	-2,013.8	3,610.8	-1,562.7
CF from Operating Activities	4262.8	26883.7	26669.9	16769.7
Purchase of Fixed Assets	16,688.9	7,916.7	9,913.1	7,913.0
(Inc)/Dec in Investments	-66.4	-1,626.1	3,886.3	500.0
Others	0.0	0.0	0.0	0.0
CF from Investing Activities	-16755.3	-9542.8	-6026.8	-7413.0
Inc/(Dec) in Loan Funds	18,719.4	-12,000.0	-3,500.0	-3,500.0
Less: Dividend Paid	6,233.7	19,344.8	4,407.7	4,897.4
Inc/(Dec) in Sh. Cap. & Res.	27.2	20,626.0	-12,150.0	0.0
Others	0.0	0.0	0.0	0.0
CF from financing activities	12,512.9	-10,718.7	-20,057.7	-8,397.4
Change in cash Eq.	20.4	6,622.1	585.5	959.2
Op. Cash and cash Eq.	95.4	115.8	6,737.9	7,323.3
Cl. Cash and cash Eq.	115.8	6,737.9	7,323.3	8,282.6

Source: Company, ICICI Direct Research

Exhibit 11: Balance sheet				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Source of Funds				
Equity Capital	1,966.9	2,092.9	2,092.9	2,092.9
Preference capital	0.0	0.0	0.0	0.0
Reserves & Surplus	31,247.5	51,444.4	41,479.3	44,745.2
Shareholder's Fund	33,214.4	53,537.3	43,572.3	46,838.1
Loan Funds	47,818.7	35,818.7	32,318.7	28,818.7
Deferred Tax Liability	5,967.3	4,471.6	4,521.6	4,571.6
Minority Interest	0.0	0.0	0.0	0.0
Source of Funds	87000.4	93827.6	80412.5	80228.4
Application of Funds				
Gross Block	70,182.1	77,182.1	86,182.1	93,182.1
Less: Acc. Depreciation	12,834.3	16,895.6	21,385.8	26,326.0
Net Block	57,347.7	60,286.4	64,796.3	66,856.1
Capital WIP	9,108.1	10,108.1	11,108.1	12,108.1
Total Fixed Assets	66,455.8	70,394.5	75,904.4	78,964.2
Investments	16,058.0	17,684.1	13,797.8	13,297.8
Inventories	20,421.1	26,756.8	24,689.3	26,830.3
Debtor	5,164.3	7,827.5	7,514.1	8,165.8
Cash	115.8	6,737.9	7,323.3	8,282.6
Loan & Advance, Other CA	17048.1	10063.1	8833.1	7603.1
Total Current assets	42749.3	51385.2	48359.8	50881.8
Current Liabilities	34824.9	41351.4	53672.3	58326.8
Provisions	3437.9	4284.9	3977.2	4588.6
Total CL and Provisions	38262.8	45636.3	57649.5	62915.4
Net Working Capital	4486.5	5748.9	-9289.7	-12033.6
Miscellaneous expense	0.0	0.0	0.0	0.0
Application of Funds	87000.4	93827.6	80412.5	80228.4

Source: Company, ICICI Direct Research

Exhibit 12: Key ratios				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Per share data (₹)				
Book Value	168.9	255.8	208.2	223.8
Cash per share	0.6	32.2	35.0	39.6
EPS	13.6	91.0	31.5	39.0
Cash EPS	32.9	110.0	52.5	62.2
DPS	15.0	79.0	18.0	20.0
Profitability & Operating Ratios				
EBITDA Margin (%)	2.0	5.7	3.1	3.3
PAT Margin (%)	0.8	6.3	1.7	1.9
Fixed Asset Turnover (x)	4.9	4.3	5.2	5.4
Inventory Turnover (Days)	22.8	23.0	23.0	23.0
Debtor (Days)	5.8	7.0	7.0	7.0
Current Liabilities (Days)	38.8	50.0	50.0	50.0
Return Ratios (%)				
RoE	8.1	35.6	15.1	17.4
RoCE	3.5	14.7	9.9	12.1
RoIC	3.7	16.4	11.4	13.9
Valuation Ratios (x)				
PE	34.6	5.2	15.0	12.1
Price to Book Value	2.8	1.8	2.3	2.1
EV/EBITDA	21.2	7.5	10.4	8.5
EV/Sales	0.4	0.4	0.3	0.3
Leverage & Solvency Ratios				
Debt to equity (x)	1.4	0.7	0.7	0.6
Interest Coverage (x)	1.3	9.9	4.0	5.4
Debt to EBITDA (x)	7.2	2.1	2.7	2.1
Current Ratio	1.1	1.1	0.8	0.8
Quick ratio	0.6	0.5	0.4	0.4

Source: Company, ICICI Direct Research

Exhibit 13: ICICI Direct Coverage Universe (Oil & Gas)

Sector / Company	CMP (₹)	TP (₹)	Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
					FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
BPCL (BHAPET)	472	495	Hold	92,837	36.3	13.6	91.0	13.0	34.6	5.2	10.3	21.2	7.5	13.1	3.5	14.7	19.4	8.1	35.6
GAIL (India) (GAIL)	146	150	Hold	65,848	14.7	10.8	14.6	9.9	13.5	10.0	8.2	11.5	7.7	13.7	7.8	12.4	15.1	10.5	13.2
Gujarat Gas (GUJGA)	512	505	Buy	35,246	17.3	17.8	21.2	29.5	28.7	24.2	22.3	17.5	14.8	25.2	32.1	31.8	36.3	28.2	25.8
Indian Oil Corp (INDOIL)	104	115	Hold	95,850	1.4	23.8	11.3	73.0	4.4	9.2	5.1	2.5	3.4	4.8	13.8	7.9	1.4	21.3	9.7
Indraprastha Gas (INDGAS)	502	595	Hold	35,140	16.2	14.6	20.9	30.9	34.3	24.0	21.7	22.4	16.0	25.0	20.8	25.2	22.5	17.7	21.2
Mahanagar Gas (MAHGAS)	1165	1340	Buy	11,508	80.3	62.7	90.1	14.5	18.6	12.9	10.8	11.9	8.4	29.7	22.6	28.4	26.9	18.7	22.9
Petronet LNG (PETLNG)	236	275	Hold	35,400	18.0	20.1	21.5	13.1	11.8	11.0	8.6	7.1	6.4	22.3	26.3	29.0	24.6	26.1	26.6

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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