

November 8, 2022

Q2FY23 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	REDUCE		REDUCE	
Target Price	260		240	
Sales (Rs. m)	49,59,496	51,95,853	45,68,646	47,99,160
% Chng.	8.6	8.3		
EBITDA (Rs. m)	1,17,917	1,32,033	1,26,926	1,36,796
% Chng.	(7.1)	(3.5)		
EPS (Rs.)	11.0	17.7	18.2	19.1
% Chng.	(39.4)	(7.3)		

Key Financials - Standalone

Y/e Mar	FY22	FY23E	FY24E	FY25E
Sales (Rs. bn)	3,466	5,158	4,959	5,196
EBITDA (Rs. bn)	190	47	118	132
Margin (%)	5.5	0.9	2.4	2.5
PAT (Rs. bn)	98	(20)	23	38
EPS (Rs.)	46.1	(9.4)	11.0	17.7
Gr. (%)	(19.9)	(120.5)	(216.6)	61.2
DPS (Rs.)	15.7	-	-	-
Yield (%)	5.1	-	-	-
RoE (%)	18.7	(4.0)	4.6	7.0
RoCE (%)	14.0	(1.1)	4.5	5.4
EV/Sales (x)	0.3	0.2	0.2	0.2
EV/EBITDA (x)	5.4	25.0	9.6	8.2
PE (x)	6.7	(32.8)	28.2	17.5
P/BV (x)	1.3	1.3	1.3	1.2

Key Data

BPCL.BO | BPCL IN

52-W High / Low	Rs.434 / Rs.288
Sensex / Nifty	61,185 / 18,203
Market Cap	Rs.672bn/ \$ 8,202m
Shares Outstanding	2,169m
3M Avg. Daily Value	Rs.1176.83m

Shareholding Pattern (%)

Promoter's	52.98
Foreign	12.96
Domestic Institution	20.90
Public & Others	13.16
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	0.8	(13.3)	(26.2)
Relative	(4.2)	(22.3)	(27.6)

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Uncertain outlook continues

Quick Pointers:

- Global low product inventory and lower exports from Russia support GRMs.
- One time grant of Rs55.8bn towards LPG losses in H1FY23 cushioned earnings.

We cut our FY23/24E earnings estimate by 40%/7%, as we incorporate the recent merger of Bharat Oman Refinery (BORL) in our standalone earnings. BPCL reported better than expected Q2 results with EBITDA of Rs14.3bn (+124%QoQ; PLe -Rs 93.9bn) and PAT of -Rs3.0bn (PLe -Rs110.6bn), due to receipt of one time government grant of Rs55.8bn towards LPG under recovery for H1FY23. Also lower than expected inventory loss cushioned Q2 performance vs our expectation of Rs51bn loss (marketing inventory loss was Rs3.8bn). H1FY23 PAT loss stands at Rs65bn despite receipt of government grants of Rs55.8bn. So we don't rule out the possibility of adhoc government grants to compensate for diesel marketing losses.

Going forward, OMCs earnings are expected be hit by sharp jump in diesel marketing losses (current diesel loss at Rs10/litre) given low inventory, gas to oil switch (because of high spot LNG prices) and drop in Russian exports (despite improvement in refining profitability) in our view. We maintain our 'REDUCE' rating at PT of Rs260 (Rs240) as we increase our valuation to 8x EV/E vs 7x earlier to factor in potential government support. Any sharp correction in crude prices is an upside risk to our estimates.

LPG grant and healthy refining drive earnings: BPCL reported standalone EBIDTA/PAT of Rs14.3bn (-70% YoY) and -Rs3.0bn (-95%QoQ), as one time LPG grant of Rs55.8bn for H1FY23 loss cushioned earnings. We calculate Q2 marketing EBIDTA loss of Rs59bn vs Q1 levels of Rs196bn, due to reduced diesel losses (company stopped sharing segment's EBIDTA). Q2 GRMs were strong at \$16.8/bbl, given healthy product spreads.

High marketing volumes added to the loss: BPCL's marketing volumes were impressive on YoY basis with MS sales at 2.38MTPA (+14% YoY) and HSD sales were at 5.17MTPA (+21% YoY). For Q2, petrol and diesel industry volumes were at 8.6MTPA (+9%YoY) and 19.3MTPA (+11%YoY).

Fuel marketing environment remains fluid. While petrol margins improved to ~Rs7/litre in Q3, diesel margins continued to report loss of 10/litre. Diesel margins are likely to remain under pressure, due to low product inventory along with strong demand due to gas-to-oil switch.

Strong refining was a saving grace: BPCL's Q2 refining margins were at USD16.8/bbl (Q1 at USD27.5/bb; PLe USD12.0/bbl) before export cess. Refining throughput was lower at 8.82 MTPA (9.7 in Q1), due to maintenance shutdown. Refining margins are likely to remain healthy, as diesel demand along with ATF remains strong.

By the end of Q2 BPCL's debt increased to Rs428bn vs Rs336bn as on FY22 end, due to weak financial performance.

Maintain REDUCE: We maintain 'REDUCE on BPCL with a PT of Rs260 (Rs240) based on EV/E of 8x FY24E and add value of E&P (Rs40).

Exhibit 1: Standalone Q2FY23 Result Overview (Rs mn)

Y/e March	Q2FY23	Q2FY22	YoY gr. (%)	Q1FY23	H1FY23	H1FY22	YoY gr. (%)
Net sales	12,83,327	10,18,892	26.0	13,83,896	26,67,223	19,15,776	39.2
Inc/dec in stock	(22,278)	(17,731)	NA	(7,833)	(30,110)	(22,099)	NA
Raw material cons	5,95,552	3,72,943	59.7	6,36,154	12,31,706	6,40,996	92.2
Staff cost	5,607	7,953	(29.5)	6,247	11,855	15,342	(22.7)
Purchases	4,93,535	3,05,742	61.4	5,52,951	10,46,486	6,69,083	56.4
Duties, taxes, etc	1,35,251	2,54,988	(47.0)	1,73,427	3,08,678	4,42,647	(30.3)
Other expenditure	61,320	47,325	29.6	81,598	1,42,918	89,977	58.8
Exp	(12,68,987)	(9,71,220)	NA	(14,42,546)	(27,11,532)	(18,35,945)	NA
Operating profit	14,340	47,672	(69.9)	(58,650)	(44,309)	79,831	NA
Interest	(8,106)	(5,116)	NA	(6,155)	(14,261)	(9,984)	NA
Depreciation	(15,566)	(13,885)	NA	(16,131)	(31,697)	(25,342)	NA
Other income	5,574	8,876	(37.2)	4,417	9,991	13,392	(25.4)
Profit before tax	(3,758)	37,548	NA	(76,519)	(80,276)	57,897	NA
Current tax	-	(7,960)	NA	-	-	(11,840)	NA
Profit after current tax	(3,758)	29,588	NA	(76,519)	(80,276)	46,057	NA
Deferred tax	716	(1,181)	NA	13,888	14,604	16,279	NA
Actual PAT	(3,042)	28,407	NA	(62,631)	(65,672)	62,336	NA
Exceptional	-	-	NA	-	-	(771)	NA
Reported PAT	(3,042)	28,407	NA	(62,631)	(65,672)	61,565	NA

Source: Company, PL

Exhibit 2: Q2 internals

	Q2FY23	Q2FY22	YoY gr. (%)	Q1FY23	H1FY23	H1FY22	YoY gr. (%)
Refining thrupt (MTPA)	8.82	7.16	23.2	9.69	18.51	14.00	32.2
GRMs (USD/bbl)	16.79	6.04	178.0	27.51	22.30	5.23	326.4
Inventory gains/loss (Rs m)							
Marketing	(3,840)	2,270	NA	(3,710)	(7,550)	10,420	NA
Refining	-	-	-	-	-	-	-
Forex gains/loss (Rs m)	(5,870)	520	NA	(1,970)	(15,500)	20	NA
Gross debt (Rs m)	4,82,370	2,90,960	65.8	2,41,230	4,82,370	2,90,960	65.8

Source: Company, PL

Exhibit 3: BPCL's core EBIDTA

	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23
EBIDTA breakup	38,512	43,058	50,579	32,528	44,778	42,130	42,493	(58,650)	14,340
Adj for forex	1,520	751	292	(470)	520	(360)	(1,970)	(9,650)	(9,650)
Adj for inventory	24,530	7,710	36,420	8,150	2,270	(14,230)	-	(3,710)	(3,840)
Core EBIDTA	12,462	34,597	13,866	24,848	41,988	56,720	44,463	(45,290)	27,830
Marketing	15,360	39,734	13,436	18,854	28,221	25,338	(12,497)	(1,82,428)	(45,709)
Refining	(2,898)	(5,137)	431	5,994	13,767	31,382	56,960	1,37,138	73,539

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Net Revenues	34,66,440	51,58,351	49,59,496	51,95,853
YoY gr. (%)	50.6	48.8	(3.9)	4.8
Cost of Goods Sold	30,74,428	48,49,246	45,57,016	47,57,344
Gross Profit	3,92,012	3,09,104	4,02,480	4,38,509
Margin (%)	11.3	6.0	8.1	8.4
Employee Cost	-	-	-	-
Other Expenses	-	-	-	-
EBITDA	1,90,218	47,062	1,17,917	1,32,033
YoY gr. (%)	(10.7)	(75.3)	150.6	12.0
Margin (%)	5.5	0.9	2.4	2.5
Depreciation and Amortization	54,179	58,688	68,188	72,188
EBIT	1,36,039	(11,626)	49,728	59,845
Margin (%)	3.9	(0.2)	1.0	1.2
Net Interest	22,088	32,898	38,197	37,073
Other Income	26,337	17,549	19,919	27,929
Profit Before Tax	1,40,288	(26,975)	31,450	50,701
Margin (%)	4.0	(0.5)	0.6	1.0
Total Tax	42,084	(6,879)	8,020	12,929
Effective tax rate (%)	30.0	25.5	25.5	25.5
Profit after tax	98,204	(20,096)	23,430	37,772
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	98,204	(20,096)	23,430	37,772
YoY gr. (%)	(18.5)	(120.5)	(216.6)	61.2
Margin (%)	2.8	(0.4)	0.5	0.7
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	98,204	(20,096)	23,430	37,772
YoY gr. (%)	(18.5)	(120.5)	(216.6)	61.2
Margin (%)	2.8	(0.4)	0.5	0.7
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	98,204	(20,096)	23,430	37,772
Equity Shares O/s (m)	2,129	2,129	2,129	2,129
EPS (Rs)	46.1	(9.4)	11.0	17.7

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Non-Current Assets				
Gross Block	10,23,769	13,23,769	14,03,769	14,83,769
Tangibles	10,23,769	13,23,769	14,03,769	14,83,769
Intangibles	-	-	-	-
Acc: Dep / Amortization	2,08,746	2,67,435	3,35,623	4,07,811
Tangibles	2,08,746	2,67,435	3,35,623	4,07,811
Intangibles	-	-	-	-
Net fixed assets	8,15,023	10,56,335	10,68,146	10,75,958
Tangibles	8,15,023	10,56,335	10,68,146	10,75,958
Intangibles	-	-	-	-
Capital Work In Progress	49,973	10,312	10,331	10,352
Goodwill	23,040	23,040	23,040	23,040
Non-Current Investments	1,19,236	1,31,159	1,44,275	1,58,703
Net Deferred tax assets	(58,660)	(56,367)	(59,041)	(63,350)
Other Non-Current Assets	23,512	3,572	3,929	4,322
Current Assets				
Investments	44,423	48,865	53,751	59,127
Inventories	4,21,765	4,94,636	4,75,568	4,98,232
Trade receivables	96,996	1,41,325	1,35,877	1,42,352
Cash & Bank Balance	13,840	34,932	56,759	79,529
Other Current Assets	5,493	6,043	6,647	7,311
Total Assets	16,41,845	19,81,620	20,12,865	20,96,921
Equity				
Equity Share Capital	21,295	21,295	21,295	21,295
Other Equity	4,95,160	4,75,064	4,98,495	5,36,267
Total Networkth	5,16,455	4,96,359	5,19,789	5,57,561
Non-Current Liabilities				
Long Term borrowings	2,90,728	4,70,728	4,55,728	4,35,728
Provisions	2,068	2,275	2,503	2,753
Other non current liabilities	14,298	15,728	17,301	19,031
Current Liabilities				
ST Debt / Current of LT Debt	1,31,425	1,31,425	1,31,425	1,31,425
Trade payables	3,03,301	4,51,337	4,33,938	4,54,619
Other current liabilities	3,24,343	3,56,778	3,92,455	4,31,701
Total Equity & Liabilities	16,41,845	19,81,620	20,12,865	20,96,921

Source: Company Data, PL Research



Cash Flow (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
PBT	1,40,288	(26,975)	31,450	50,701
Add. Depreciation	54,179	58,688	68,188	72,188
Add. Interest	22,088	32,898	38,197	37,073
Less Financial Other Income	26,337	17,549	19,919	27,929
Add. Other	23,976	16,364	904	2,363
Op. profit before WC changes	2,40,531	80,975	1,38,740	1,62,325
Net Changes-WC	16,616	54,733	33,405	20,457
Direct tax	36,644	(4,586)	5,347	8,619
Net cash from Op. activities	2,93,791	1,31,123	1,77,491	1,91,402
Capital expenditures	(1,99,010)	(2,67,771)	(88,194)	(89,013)
Interest / Dividend Income	-	-	-	-
Others	(3,343)	(758)	(834)	(917)
Net Cash from Inv. activities	(2,02,353)	(2,68,529)	(89,028)	(89,930)
Issue of share cap. / premium	(2,05,923)	11,464	(13,366)	(21,548)
Debt changes	80,550	1,80,000	(15,000)	(20,000)
Dividend paid	-	-	-	-
Interest paid	(22,088)	(32,898)	(38,197)	(37,073)
Others	-	-	-	-
Net cash from Fin. activities	(1,47,461)	1,58,567	(66,563)	(78,621)
Net change in cash	(56,023)	21,160	21,900	22,851
Free Cash Flow	94,781	(1,36,648)	89,298	1,02,389

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY22	Q4FY22	Q1FY23	Q2FY23
Net Revenue	10,10,452	10,87,736	12,10,469	11,46,786
YoY gr. (%)	51.4	41.5	70.7	50.1
Raw Material Expenses	9,12,067	9,76,737	11,81,273	10,94,708
Gross Profit	98,385	1,10,999	29,196	52,078
Margin (%)	9.7	10.2	2.4	4.5
EBITDA	42,130	42,493	(58,649)	(21,922)
YoY gr. (%)	(2.2)	(16.0)	(282.4)	(146.0)
Margin (%)	4.2	3.9	(4.8)	(1.9)
Depreciation / Depletion	11,680	12,736	16,131	16,500
EBIT	30,450	29,758	(74,780)	(38,422)
Margin (%)	3.0	2.7	(6.2)	(3.4)
Net Interest	4,460	5,338	6,155	6,200
Other Income	6,826	5,976	4,417	6,000
Profit before Tax	32,815	30,395	(76,519)	(38,622)
Margin (%)	3.2	2.8	(6.3)	(3.4)
Total Tax	8,192	9,090	(13,888)	-
Effective tax rate (%)	25.0	29.9	18.2	-
Profit after Tax	24,623	21,305	(62,630)	(38,622)
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	24,623	21,305	(62,630)	(38,622)
YoY gr. (%)	(11.4)	(82.2)	(288.9)	(236.0)
Margin (%)	2.4	2.0	(5.2)	(3.4)
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	24,623	21,305	(62,630)	(38,622)
YoY gr. (%)	(11.4)	(82.2)	(288.9)	(236.0)
Margin (%)	2.4	2.0	(5.2)	(3.4)
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	24,623	21,305	(62,630)	(38,622)
Avg. Shares O/s (m)	20,929	20,929	20,929	20,929
EPS (Rs)	11.8	10.2	(29.9)	(18.5)

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY22	FY23E	FY24E	FY25E
Per Share(Rs)				
EPS	46.1	(9.4)	11.0	17.7
CEPS	71.6	18.1	43.0	51.6
BVPS	242.5	233.1	244.1	261.8
FCF	44.5	(64.2)	41.9	48.1
DPS	15.7	-	-	-
Return Ratio(%)				
RoCE	14.0	(1.1)	4.5	5.4
ROIC	8.6	(0.6)	2.6	3.1
RoE	18.7	(4.0)	4.6	7.0
Balance Sheet				
Net Debt : Equity (x)	0.7	1.0	0.9	0.8
Net Working Capital (Days)	23	13	13	13
Valuation(x)				
PER	6.7	(32.8)	28.2	17.5
P/B	1.3	1.3	1.3	1.2
P/CEPS	4.3	17.1	7.2	6.0
EV/EBITDA	5.4	25.0	9.6	8.2
EV/Sales	0.3	0.2	0.2	0.2
Dividend Yield (%)	5.1	-	-	-

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY22	FY23E	FY24E	FY25E
Crude /bbl	65	100	90	90
US\$/Rs	77	80	82	85
GRM (US\$/bbl)	10	14	8	7
Refining volume (MTPA)	36	36	37	37

Source: Company Data, PL Research



Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	01-Oct-22	Reduce	240	305
2	01-Sep-22	Hold	331	331
3	08-Aug-22	Hold	331	336
4	05-Jul-22	BUY	416	313
5	26-May-22	BUY	416	326
6	23-May-22	BUY	416	333
7	04-Apr-22	BUY	416	380
8	02-Feb-22	BUY	543	382
9	06-Jan-22	BUY	589	395

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Bharat Petroleum Corporation	Reduce	240	305
2	Bharti Airtel	BUY	1,058	836
3	GAIL (India)	BUY	120	89
4	Gujarat Gas	Hold	530	503
5	Hindustan Petroleum Corporation	Hold	195	211
6	Indian Oil Corporation	Reduce	50	68
7	Indraprastha Gas	BUY	596	397
8	Mahanagar Gas	BUY	1,103	832
9	Oil & Natural Gas Corporation	BUY	160	127
10	Oil India	BUY	300	175
11	Petronet LNG	BUY	307	200
12	Reliance Industries	BUY	2,892	2,480

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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