Stock Update

Result Update

Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Bharat Petroleum Corporation Ltd

GRMs surprise positively; LPG subsidy led to a lower loss

Oil & Gas	Sharekhan code: BPCL

Reco/View: Buy	↔	CMP: Rs. 307	Price Target: Rs. 375	↔

↑ Upgrade ↔ Maintain ↓ Downgrade

3R MATRIX

	+	=	-
Right Sector (RS)		✓	
Right Quality (RQ)	✓		
Right Valuation (RV)	✓		

+ Positive = Neutral – Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↔	

ESG Disclosure Score NEW

ESG RISK RATING 35.22

Updated Oct 08, 2022

High Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

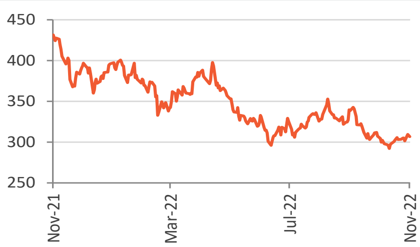
Company details

Market cap:	Rs. 66,553 cr
52-week high/low:	Rs. 434/288
NSE volume: (No of shares)	38.1 lakh
BSE code:	500547
NSE code:	BPCL
Free float: (No of shares)	102.0 cr

Shareholding (%)

Promoters	53.0
FII	13.0
DII	20.9
Others	13.2

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	0.7	-6.6	-13.1	-28.9
Relative to Sensex	-4.5	-10.3	-25.4	-30.0

Sharekhan Research, Bloomberg

Summary

- In Q2FY23, BPCL reported a net loss of Rs. 304 crore, which was much lower than our estimates due to a sharp beat in GRMs at $16.8/bbl, one-time LPG subsidy of Rs. 5,582 crore and lower marketing inventory loss of Rs. 384 crore. Adjusting for LPG subsidy, the net loss of Rs. 4,148 crore was also lower than our estimate of Rs. 6,552 crore.
- Marketing segment remained under pressure due to negative diesel marketing margin. Volume performance was mixed with 7% beat in refining throughput at 8.8 mmt, while marketing volumes were 4% below our estimate at 11.7 mmt.
- We believe that H1FY23 factors in the worst for OMCs and the gradual petrol/diesel prices hikes or decline in crude oil price coupled with likely normalisation of refining margins would drive earnings recovery in H2FY23-FY24.
- We maintain a Buy on BPCL with and unchanged PT of Rs. 375 given attractive valuation of 7.2x/1.3x FY24E EPS/BV and FY24E dividend yield of 5%.

Q2FY23 standalone reported operating profit came in at Rs. 1,434 crore (versus loss of Rs. 5,865 crore in Q1FY23) was substantially lower than our operating loss estimate of Rs. 7,076 crore. The positive surprise was driven by a sharp beat in GRM at $16.8/bbl, one-time LPG subsidy of Rs. 5,582 crore and lower marketing inventory loss of Rs. 384 crore. Volume performance was mixed with a 7% beat in refining throughput at 8.8 mmt (up 23% y-o-y; down 9% q-o-q) while marketing volume was 4% below our estimate at 11.7 mmt (up 12.5% y-o-y; down 4.7% q-o-q). Reported net loss stood at Rs. 304 crore as compared to net loss of Rs. 6263 crore in Q1FY23. Adjusting for LPG subsidy, net loss of Rs. 4,823 crore was lower than our net loss estimate of Rs. 6,552 crore on account of positive GRM surprise.

Key positives

- Sharp beat in reported GRM at $16.8/bbl.
- LPG subsidy of Rs. 5582 crore received for FY22 and H1FY23.

Key negatives

- Continued loss in the marketing business due to negative marketing margin on diesel.
- Gross debt increased sharply by 44% y-o-y to Rs. 48,237 crore as of September 2022.

Revision in estimates – We now estimate higher net loss for FY23 as we factor continued negative diesel marketing and lower GRM. We have fine tune our FY24 earnings estimate and introduced our FY25 earnings estimate.

Our Call

Valuation – Maintain Buy on BPCL with an unchanged PT of Rs. 375: We believe that H1FY23 factors in the worst for OMCs and a gradual normalisation of refining & marketing margins would lead to overall earnings recovery. Moreover, BPCL's valuation of 7.2x its FY2024E EPS and 1.3x its FY2024E P/BV is attractive and FY24E DPS implies a 5% dividend yield. Hence, we maintain a Buy on BPCL with an unchanged PT of 375.

Key Risks

Sustained weak auto fuel marketing margin and lower-than-expected refining margins remain a key risk to earnings and valuation

Valuation (Standalone) Rs cr

Particulars	FY22	FY23E	FY24E	FY25E
Revenue	3,62,277	6,34,219	6,31,740	6,32,771
OPM (%)	4.5	-1.1	2.6	2.7
Adjusted PAT	8,866	-8,329	9,098	9,129
% YoY growth	-33.0	NM	NM	0.3
Adjusted EPS (Rs.)	41.6	-39.1	42.7	42.9
P/E (x)	7.4	NM	7.2	7.2
P/B (x)	1.3	1.3	1.3	1.2
EV/EBITDA (x)	5.5	NM	5.4	5.4
RoNW (%)	17.0	NM	18.6	18.0
RoCE (%)	19.2	NM	16.3	15.8

Source: Company; Sharekhan estimates

One-time LPG subsidy and GRM beat led by lower-than-expected reported net loss

Q2FY23 standalone reported operating profit came in at Rs. 1,434 crore (versus loss of Rs. 5,865 crore in Q1FY23) was substantially lower than our operating loss estimate of Rs. 7,076 crore. The positive surprise was driven by a sharp beat in GRM at $16.8/bbl, one-time LPG subsidy of Rs. 5,582 crore and lower marketing inventory loss of Rs. 384 crore. Volume performance was mixed with a 7% beat in refining throughput at 8.8 mmt (up 23% y-o-y; down 9% q-o-q) while marketing volume was 4% below our estimate at 11.7 mmt (up 12.5% y-o-y; down 4.7% q-o-q). Reported net loss stood at Rs. 304 crore as compared to net loss of Rs. 6263 crore in Q1FY23. Adjusting for LPG subsidy, net loss of Rs. 4,823 crore was lower than our net loss estimate of Rs. 6,552 crore on account of positive GRM surprise.

Results (Standalone) Rs cr

Particulars	Q2FY23	Q2FY22	YoY (%)	Q1FY23	QoQ (%)
Revenue	**1,14,808**	**76,390**	**50.3**	**1,21,047**	**-5.2**
Total Expenditure	1,13,374	71,623	58.3	1,26,912	-10.7
Reported operating profit	1,434	4,767	-69.9	-5,865	NA
Adjusted operating profit	**-4,148**	**4,767**	**NA**	**-5,865**	**NA**
Other Income	557	888	-37.2	442	26.2
Interest	811	512	58.5	616	31.7
Depreciation	1,557	1,388	12.1	1,613	-3.5
Reported PBT	-376	3,755	NA	-7,652	NA
Adjusted PBT	**-5,958**	**3,755**	**NA**	**-7,652**	**NA**
Tax	-72	914	NA	-1,389	NA
Reported PAT	-304	2,841	NA	-6,263	NA
Adjusted PAT	**-4,823**	**2,841**	**NA**	**-6,263**	**NA**
Equity Cap (cr)	213	213		213	
Reported EPS (Rs.)	-1.4	13.3	NA	-29.4	NA
Adjusted EPS (Rs.)	-22.6	13.3	NA	-29.4	NA
Margins (%)			**BPS**		**BPS**
Adjusted OPM	-3.6	6.2	NA	-4.8	NA
Adjusted NPM	-4.2	3.7	NA	-5.2	NA
Tax rate	19.1	24.3	-529.2	18.2	90.2

Source: Company, Sharekhan Research

Key operating metrics

Particulars	Q2FY23	Q2FY22	YoY (%)	Q1FY23	QoQ (%)
GRM ($/bbl)	16.8	6.0	178.0%	27.5	-39.0%
Refining throughput (mmt)	8.8	7.2	23.2%	9.7	-9.0%
Market sales (mmt)	11.7	10.4	12.5%	12.3	-4.7%
Marketing inventory gain/(loss) - Rs. crore	-384	227	NA	-371	NA
Forex gain/(loss) - Rs. crore	-587	52	NA	-965	NA

Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector view - Near term muted outlook on weakening GRM and elevated crude

OMCs' earnings in H1FY23 is expected to remain challenging on two counts – firstly, sustained high crude oil prices and inability to hike retail petrol/diesel would mean large marketing losses on auto fuels and secondly, refining margins have declined sharply due to lower transportation fuel crack spreads. Moreover, the weakening of the Indian Rupee would add to trouble given a rise in forex losses. However, we believe that both refining and marketing margins would gradually normalise and thus expect a recovery in earnings of OMCs in H2FY23.

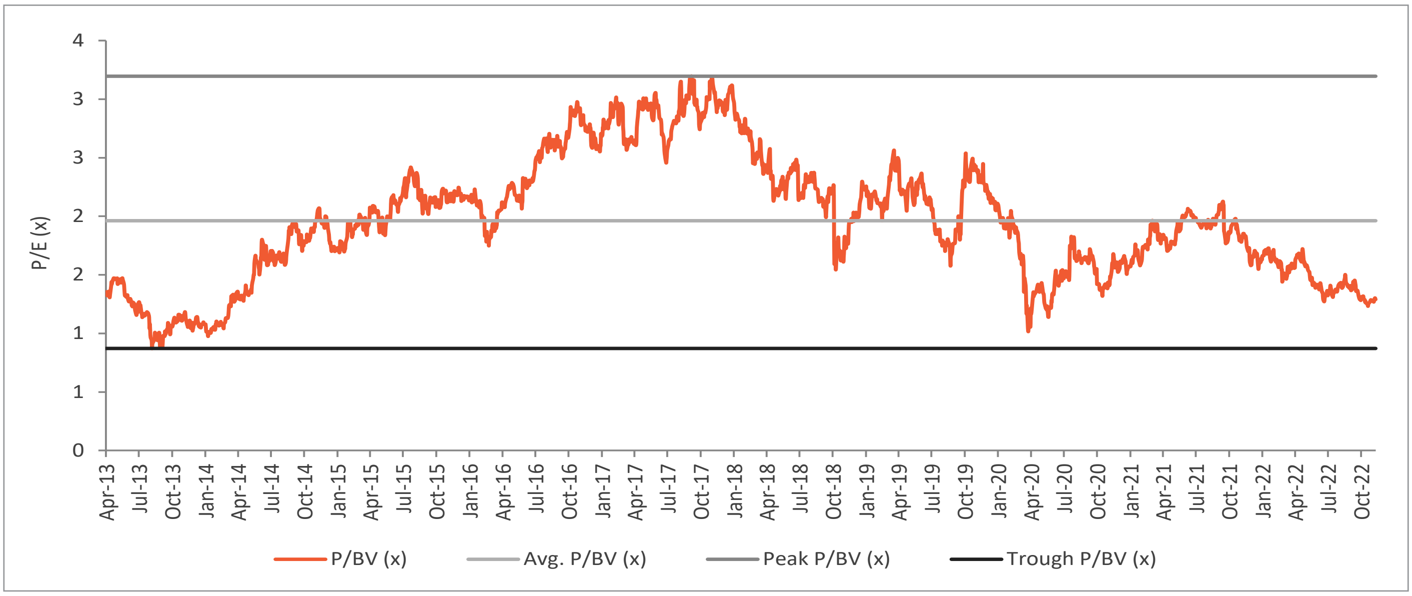
■ Company outlook - Near-term earnings headwinds; expect a gradual recovery

BPCL's earnings remained muted in H1FY23 due to negative marketing margins on motor spirit (MS)/high-speed diesel (HSD) given inadequate price revision amid elevated crude oil prices and high product cracks. Moreover, refining margins has been also volatile and may not provide relief against marketing losses. Overall, we expect BPCL to report a standalone net loss of Rs. 8,329 crore in FY23 and recover strongly in FY24 as the marketing segment's profitability would normalise gradually. Likely normalisation of international crude oil prices, steep MS/HSD retail price hikes hold the key for an earnings revival of OMCs. Any kind of compensation from the government on loss in auto fuels could reduce losses although probability of the same seems low given both diesel/petrol are deregulated petroleum products and government's fiscal constraint.

■ Valuation - Maintain Buy on BPCL with an unchanged PT of Rs. 375

We believe that H1FY23 factors in the worst for OMCs and a gradual normalisation of refining & marketing margins would lead to overall earnings recovery. Moreover, BPCL's valuation of 7.2x its FY2024E EPS and 1.3x its FY2024E P/BV is attractive and FY24E DPS implies a 5% dividend yield. Hence, we maintain a Buy on BPCL with an unchanged PT of 375.

One-year forward P/BV (x) band



Source: Sharekhan Research

About company

BPCL is the second largest OMC in India and is engaged in the business of crude oil refining and marketing of petroleum products. The company has a standalone refining capacity of 27.5 mmt and retail fuel outlets of 18,637. The company also holds stake in exploration and production (E&P) blocks in Mozambique and Brazil. The company holds stakes in city-gas distribution and LNG import businesses through its joint venture companies.

Investment theme

OMCs are expected to benefit from the recent sharp surge in the refining margin amid geopolitical tensions but inadequate petrol/diesel retail price despite high crude/petroleum products prices remain a near-term concern on marketing margin. However, BPCL's valuation is attractive and the stock offers healthy dividend yield.

Key Risks

- Sustained weak auto fuel marketing margin
- Lower-than-expected refining margins in case of surplus global refining capacity.
- Lower-than-expected marketing volume and refining throughput in case if economic slowdown.

Additional Data

Key management personnel

Vetsa Ramakrishna Gupta	Chairman & Managing Director, Director Finance
Sanjay Khanna	Director – Refineries
Sukhmal Kumar Jain	Director (Marketing)

Source: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Life Insurance Corp of India	5.9
2	ICICI Prudential Asset Management	2.5
3	HDFC Asset Management Co. Ltd.	2.0
4	SBI Funds Management Pvt. Ltd.	1.8
5	Vanguard Group Inc.	1.7
6	BlackRock Inc.	1.2
7	Norges Bank	0.7
8	Franklin Resources Inc.	0.7
9	Mirae Asset Global Investments Company	0.7
10	Kotak Mahindra Asset Management Company Ltd	0.6

Source: Bloomberg (old data)

Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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by BNP PARIBAS

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