

January 30, 2023

Q3FY23 Result Update

☑ Change in Estimates | ■ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	BUY		BUY	
Target Price	420		420	
Sales (Rs. m)	41,98,157	41,96,443	41,98,157	41,96,443
% Chng.	-	-	-	-
EBITDA (Rs. m)	1,90,070	1,79,504	1,90,070	1,79,504
% Chng.	-	-	-	-
EPS (Rs.)	40.1	36.7	41.7	38.6
% Chng.	(3.8)	(5.0)	-	-

Key Financials - Standalone

Y/e Mar	FY22	FY23E	FY24E	FY25E
Sales (Rs. bn)	3,468	4,729	4,198	4,196
EBITDA (Rs. bn)	191	85	190	180
Margin (%)	5.5	1.8	4.5	4.3
PAT (Rs. bn)	105	28	85	78
EPS (Rs.)	49.5	13.0	40.1	36.7
Gr. (%)	(14.0)	(73.8)	208.9	(8.7)
DPS (Rs.)	15.7	-	10.5	11.3
Yield (%)	4.7	-	3.1	3.4
RoE (%)	20.0	5.3	15.8	13.4
RoCE (%)	12.6	1.9	10.2	8.5
EV/Sales (x)	0.4	0.3	0.3	0.3
EV/EBITDA (x)	6.8	14.8	6.2	6.3
PE (x)	6.8	25.8	8.4	9.1
P/BV (x)	1.4	1.4	1.3	1.2

Key Data

BPCL.BO | BPCL IN

52-W High / Low	Rs.400 / Rs.288
Sensex / Nifty	59,500 / 17,649
Market Cap	Rs.727bn/ \$ 8,920m
Shares Outstanding	2,169m
3M Avg. Daily Value	Rs.1152.98m

Shareholding Pattern (%)

Promoter's	52.98
Foreign	12.53
Domestic Institution	22.11
Public & Others	12.38
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	1.4	1.5	(12.4)
Relative	3.7	(1.8)	(15.8)

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Profitability outlook improves

Quick Pointers:

- EU ban on Russian oil products to support GRMs.
- Blended marketing margins have improved to Rs1.5/ltr vs loss of Rs3/ltr in Q3.

We cut our FY24/25E earnings by 4%-5% to factor in lower other income. However improving marketing environment along with strong GRMs will drive near term earnings, in our view. Bharat Petroleum Corporation (BPCL) reported better than expected Q3 results with EBITDA of Rs42.3bn (+195%QoQ; PLe Rs 1.9bn) and PAT of Rs19.6bn (PLe -Rs16.4bn), due to better than expected marketing profitability. Sharp correction in international diesel prices to ~\$115 from recent peak of USD170/bbl has improved marketing segment profitability outlook. Also, ban on import of Russian oil product from Feb-23 will likely support refining product spreads. Global recessionary pressure along with high interest rates will keep oil prices range bound, despite increased demand from China. Further, OMCs are well placed to benefit from improving marketing and healthy refining profitability. Maintain 'BUY' with a PT of Rs420 based on 7x EV/E FY24E.

- Marketing EBIDTA loss falls to Rs33bn:** BPCL reported standalone EBIDTA/PAT of Rs42.3bn (flat YoY) and Rs19.6bn (-20%YoY). We calculate Q3 marketing EBIDTA loss of Rs33bn vs Q2 levels of Rs59bn, due to reduced diesel losses (company stopped sharing segment's EBIDTA). Q3 GRMs were strong at \$15.9/bbl, given healthy product spreads.
- Q3 petrol/diesel volume growth at 11.5%/22%YoY:** BPCL's marketing volumes were impressive on YoY basis with MS sales at 2.43MTPA (+11.5% YoY) and HSD sales were at 6.04MTPA (+22% YoY). For Q3, petrol and diesel industry volumes were at 8.8MTPA (+8%YoY) and 22.5MTPA (+10%YoY).
- Improving fuel marketing environment is a positive:** Fuel marketing environment continues to improve as petrol margins improved to ~Rs9/litre in Q4, diesel margins are close to breakeven. Blended marketing margins for Q4FY23E stands at ~Rs1.5/litre vs loss of Rs3/ltr in Q3 and Rs11/ltr for H1FY23. We maintain our FY24/25 marketing margins at Rs3.5/4.0/ltr.
- Ban on Russian oil products to support GRMs:** BPCL's Q3 refining margins were at USD15.9/bbl (Q2 at USD16.8/bb; PLe USD19.0/bbl), before export cess. Refining throughput was higher at 9.4 MTPA (8.8 in Q2), post maintenance shutdown. Refining margins are likely to remain healthy, as diesel demand along with ATF remains strong, due to ban on Russian oil products imports to EU; Russia exported 1.5mbpd oil products to EU before conflict.
- BPCL's debt decreased to Rs402.6bn** by Q3 end vs Rs482.4bn as on Q2 end.
- Maintain BUY:** We maintain 'BUY' on BPCL with a PT of Rs420 (unchanged) based on EV/E of 7x FY24E and add value of E&P (Rs40).

Exhibit 1: Standalone Q3FY23 earnings recover QoQ due to lower marketing losses

Y/e March	Q3FY23	Q3FY22	YoY gr. (%)	Q2FY23	9MFY23	9MFY22	YoY gr. (%)
Net sales	13,33,315	11,85,367	12.5	12,83,327	40,00,537	31,01,143	29.0
Inc/dec in stock	29,919	4,954	503.9	(22,278)	(191)	(17,145)	NA
Raw material cons	5,60,167	3,69,669	51.5	5,95,552	17,91,872	10,10,665	77.3
Staff cost	7,396	8,921	(17.1)	5,607	19,250	24,263	(20.7)
Purchases	4,91,665	5,37,444	(8.5)	4,93,535	15,38,151	12,06,527	27.5
Duties, taxes, etc	1,41,734	1,74,915	(19.0)	1,35,251	4,50,412	6,17,562	(27.1)
Other expenditure	60,096	47,334	27.0	61,320	2,03,014	1,37,311	47.8
Exp	(12,90,976)	(11,43,237)	NA	(12,68,987)	(40,02,508)	(29,79,182)	NA
Operating profit	42,339	42,130	0.5	14,340	(1,971)	1,21,960	(101.6)
Interest	(9,780)	(4,460)	NA	(8,106)	(24,041)	(14,444)	NA
Depreciation	(15,820)	(11,680)	NA	(15,566)	(47,517)	(37,022)	NA
Other income	4,519	6,826	(33.8)	5,574	14,510	20,217	(28.2)
Profit before tax	21,258	32,815	(35.2)	(3,758)	(59,018)	90,712	(165.1)
Current tax	-	(7,592)	NA	-	-	(19,432)	NA
Profit after current tax	21,258	25,223	(15.7)	(3,758)	(59,018)	71,280	NA
Deferred tax	(1,663)	(600)	NA	716	12,942	15,679	NA
Actual PAT	19,596	24,623	(20.4)	(3,042)	(46,076)	86,959	NA
Exceptional	-	-	-	-	-	(771)	NA
Reported PAT	19,596	24,623	(20.4)	(3,042)	(46,076)	86,188	NA

Source: Company, PL

Exhibit 2: Q3 internals reflect improving trends

	Q3FY23	Q3FY22	YoY gr. (%)	Q2FY23	9MFY23	9MFY22	YoY gr. (%)
Refining thrupt (MTPA)	7.95	7.16	11.0	7.16	21.95	18.01	21.9
GRMs (USD/bbl)	9.69	6.04	60.4	6.04	5.11	3.19	60.2
Gross debt (Rs m)	402,560	320,020	26%	482,370	402,560	320,030	26%

Source: Company, PL

Exhibit 3: BPCL's core EBIDTA increases 113% QoQ

	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23
EBIDTA breakup	43,058	50,579	32,159	47,672	42,130	42,493	-58,650	14,340	42,339
Adj for forex	751	292	-470	520	-360	-1,970	-1,970	-5,870	-1,410
Adj for inventory	7,710	36,420	8,150	2,270	-14,230	0	-3,710	-3,840	-7,520
Core EBIDTA	34,597	13,866	24,479	44,882	56,720	44,463	-52,970	24,050	51,269
Marketing	39,734	13,436	18,485	31,115	25,338	-12,497	-1,90,108	-49,674	-24,473
Refining	(5,137)	431	5,994	13,767	31,382	56,960	1,37,138	73,724	75,742

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Net Revenues	34,67,911	47,28,542	41,98,157	41,96,443
YoY gr. (%)	50.7	36.4	(11.2)	0.0
Cost of Goods Sold	30,34,013	43,89,774	37,37,189	37,29,975
Gross Profit	4,33,898	3,38,769	4,60,968	4,66,468
Margin (%)	12.5	7.2	11.0	11.1
Employee Cost	-	-	-	-
Other Expenses	-	-	-	-
EBITDA	1,91,373	85,060	1,90,070	1,79,504
YoY gr. (%)	(10.1)	(55.6)	123.5	(5.6)
Margin (%)	5.5	1.8	4.5	4.3
Depreciation and Amortization	54,344	63,374	73,751	78,271
EBIT	1,37,029	21,686	1,16,319	1,01,233
Margin (%)	4.0	0.5	2.8	2.4
Net Interest	26,056	31,208	38,573	39,583
Other Income	22,685	10,713	12,330	24,203
Profit Before Tax	1,33,658	1,191	90,077	85,853
Margin (%)	3.9	0.0	2.1	2.0
Total Tax	43,552	(26,474)	4,623	7,803
Effective tax rate (%)	32.6	(2,223.3)	5.1	9.1
Profit after tax	90,106	27,665	85,454	78,051
Minority interest	(15,357)	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	1,05,463	27,665	85,454	78,051
YoY gr. (%)	(12.5)	(73.8)	208.9	(8.7)
Margin (%)	3.0	0.6	2.0	1.9
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	1,05,463	27,665	85,454	78,051
YoY gr. (%)	(12.5)	(73.8)	208.9	(8.7)
Margin (%)	3.0	0.6	2.0	1.9
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,05,463	27,665	85,454	78,051
Equity Shares O/s (m)	2,129	2,129	2,129	2,129
EPS (Rs)	49.5	13.0	40.1	36.7

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Non-Current Assets				
Gross Block	10,30,234	13,45,931	14,30,931	15,15,931
Tangibles	10,30,234	13,45,931	14,30,931	15,15,931
Intangibles	-	-	-	-
Acc: Dep / Amortization	2,15,161	3,13,462	3,87,213	4,65,485
Tangibles	2,15,161	3,13,462	3,87,213	4,65,485
Intangibles	-	-	-	-
Net fixed assets	8,15,073	10,32,469	10,43,718	10,50,446
Tangibles	8,15,073	10,32,469	10,43,718	10,50,446
Intangibles	-	-	-	-
Capital Work In Progress	1,54,331	14,710	15,169	15,674
Goodwill	23,942	7,433	7,433	7,433
Non-Current Investments	2,38,373	2,28,379	2,51,217	2,76,339
Net Deferred tax assets	(63,757)	(61,494)	(75,385)	(87,470)
Other Non-Current Assets	23,576	1,917	2,108	2,319
Current Assets				
Investments	44,423	48,865	53,751	59,127
Inventories	4,21,787	4,59,009	4,08,051	4,07,913
Trade receivables	97,075	1,32,941	1,18,349	1,18,319
Cash & Bank Balance	22,367	(4,673)	79,521	1,48,970
Other Current Assets	27,259	28,997	31,897	35,086
Total Assets	18,75,289	19,58,486	20,20,496	21,31,836
Equity				
Equity Share Capital	21,295	21,295	21,295	21,295
Other Equity	4,97,762	4,97,808	5,42,426	5,82,283
Total Networkth	5,19,056	5,19,102	5,63,721	6,03,578
Non-Current Liabilities				
Long Term borrowings	4,43,997	4,79,103	4,88,531	5,05,188
Provisions	2,343	2,319	2,551	2,806
Other non current liabilities	14,882	7,235	7,958	8,754
Current Liabilities				
ST Debt / Current of LT Debt	2,01,346	1,13,108	1,12,792	1,12,444
Trade payables	3,03,477	3,92,196	3,47,236	3,47,041
Other current liabilities	3,25,865	3,83,309	4,21,640	4,63,804
Total Equity & Liabilities	18,75,289	19,58,486	20,20,497	21,31,836

Source: Company Data, PL Research



Cash Flow (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
PBT	1,33,658	1,191	90,077	85,853
Add. Depreciation	54,344	63,374	73,751	78,271
Add. Interest	26,056	31,208	38,573	39,583
Less Financial Other Income	22,685	10,713	12,330	24,203
Add. Other	17,800	3,776	9,253	6,983
Op. profit before WC changes	2,31,859	99,549	2,11,654	2,10,691
Net Changes-WC	(80,057)	69,980	55,179	38,019
Direct tax	(36,645)	8,637	(9,257)	(9,944)
Net cash from Op. activities	1,15,157	1,78,166	2,57,576	2,38,766
Capital expenditures	(2,23,964)	(1,05,885)	(1,01,999)	(1,03,699)
Interest / Dividend Income	-	-	-	-
Others	(3,343)	(758)	(834)	(917)
Net Cash from Inv. activities	(2,27,307)	(1,06,644)	(1,02,833)	(1,04,616)
Issue of share cap. / premium	(80,022)	(9,781)	(36,201)	(36,052)
Debt changes	1,69,462	(53,131)	9,112	16,309
Dividend paid	(33,487)	-	-	-
Interest paid	(26,056)	(31,208)	(38,573)	(39,583)
Others	-	-	-	-
Net cash from Fin. activities	29,897	(94,120)	(65,663)	(59,326)
Net change in cash	(82,253)	(22,598)	89,080	74,823
Free Cash Flow	(1,08,807)	72,280	1,55,577	1,35,067

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q4FY22	Q1FY23	Q2FY23	Q3FY23
Net Revenue	10,87,736	12,10,469	11,48,076	11,91,581
YoY gr. (%)	41.5	70.7	50.3	17.9
Raw Material Expenses	9,76,737	11,81,273	10,66,809	10,81,751
Gross Profit	1,10,999	29,196	81,267	1,09,830
Margin (%)	10.2	2.4	7.1	9.2
EBITDA	42,493	(58,649)	14,340	42,339
YoY gr. (%)	(16.0)	(282.4)	(69.9)	0.5
Margin (%)	3.9	(4.8)	1.2	3.6
Depreciation / Depletion	12,736	16,131	15,566	15,820
EBIT	29,758	(74,780)	(1,226)	26,519
Margin (%)	2.7	(6.2)	(0.1)	2.2
Net Interest	5,338	6,155	8,106	9,780
Other Income	5,976	4,417	5,574	4,519
Profit before Tax	30,395	(76,519)	(3,758)	21,258
Margin (%)	2.8	(6.3)	(0.3)	1.8
Total Tax	9,090	(13,888)	(716)	1,663
Effective tax rate (%)	29.9	18.2	19.1	7.8
Profit after Tax	21,305	(62,630)	(3,042)	19,596
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	21,305	(62,630)	(3,042)	19,596
YoY gr. (%)	(82.2)	(288.9)	(110.7)	(20.4)
Margin (%)	2.0	(5.2)	(0.3)	1.6
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	21,305	(62,630)	(3,042)	19,596
YoY gr. (%)	(82.2)	(288.9)	(110.7)	(20.4)
Margin (%)	2.0	(5.2)	(0.3)	1.6
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	21,305	(62,630)	(3,042)	19,596
Avg. Shares O/s (m)	20,929	20,929	20,929	20,929
EPS (Rs)	10.2	(29.9)	(1.5)	9.4

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY22	FY23E	FY24E	FY25E
Per Share(Rs)				
EPS	49.5	13.0	40.1	36.7
CEPS	75.0	42.8	74.8	73.4
BVPS	243.8	243.8	264.7	283.4
FCF	(51.1)	33.9	73.1	63.4
DPS	15.7	-	10.5	11.3
Return Ratio(%)				
RoCE	12.6	1.9	10.2	8.5
ROIC	7.6	1.1	6.2	5.3
RoE	20.0	5.3	15.8	13.4
Balance Sheet				
Net Debt : Equity (x)	1.1	1.1	0.8	0.7
Net Working Capital (Days)	23	15	16	16
Valuation(x)				
PER	6.8	25.8	8.4	9.1
P/B	1.4	1.4	1.3	1.2
P/CEPS	4.5	7.8	4.5	4.6
EV/EBITDA	6.8	14.8	6.2	6.3
EV/Sales	0.4	0.3	0.3	0.3
Dividend Yield (%)	4.7	-	3.1	3.4

Source: Company Data, PL Research

Key Operating Metrics

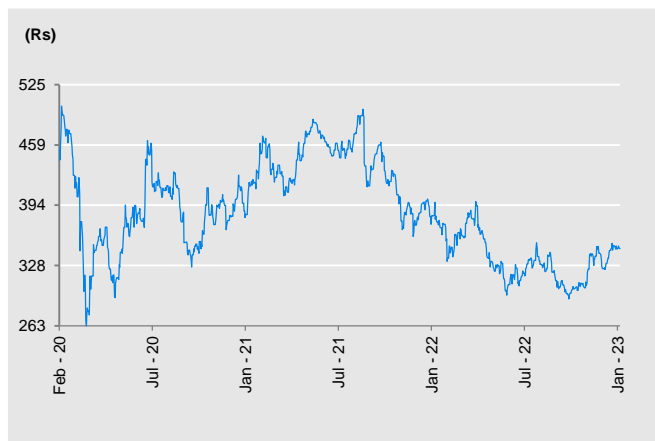
Y/e Mar	FY22	FY23E	FY24E	FY25E
Crude /bbl	65	100	80	80
US\$/Rs	77	80	82	85
GRM (US\$/bbl)	9	14	7	5
Refining volume (MTPA)	30	31	31	32
Net subsidy burden (Rs m)				

Source: Company Data, PL Research



Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	03-Jan-23	BUY	420	334
2	09-Dec-22	BUY	420	338
3	08-Nov-22	Reduce	260	310
4	01-Oct-22	Reduce	240	305
5	01-Sep-22	Hold	331	331
6	08-Aug-22	Hold	331	336
7	05-Jul-22	BUY	416	313
8	26-May-22	BUY	416	326
9	23-May-22	BUY	416	333
10	04-Apr-22	BUY	416	380

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Bharat Petroleum Corporation	BUY	420	334
2	Bharti Airtel	BUY	1,039	818
3	GAIL (India)	BUY	120	97
4	Gujarat Gas	Hold	530	490
5	Hindustan Petroleum Corporation	BUY	350	237
6	Indian Oil Corporation	BUY	130	78
7	Indraprastha Gas	BUY	564	413
8	Mahanagar Gas	BUY	1,103	845
9	Oil & Natural Gas Corporation	BUY	180	150
10	Oil India	BUY	300	215
11	Petronet LNG	BUY	326	223
12	Reliance Industries	BUY	2,878	2,443

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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