Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Bharat Petroleum Corporation Ltd

Stellar Q4; GRM surprises positively

Oil & Gas	Sharekhan code: BPCL
Reco/View: Buy ↔	CMP: **Rs. 367** / Price Target: **Rs. 430** ↑

↑ 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 Updated Mar 08, 2023	36.68

High Risk

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

Source: Morningstar

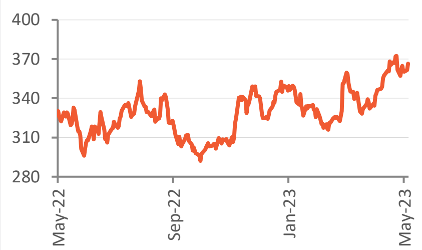
Company details

Market cap:	Rs. 79,514 cr
52-week high/low:	Rs. 375 / 288
NSE volume: (No of shares)	34.2 lakh
BSE code:	500547
NSE code:	BPCL
Free float: (No of shares)	102.0 cr

Shareholding (%)

Promoters	53.0
FII	12.6
DII	22.6
Others	11.9

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	5.6	15.4	14.2	11.1
Relative to Sensex	2.4	11.2	14.7	-3.6

Sharekhan Research, Bloomberg

Summary

- Q4FY23 standalone adjusted PAT of Rs. 7,563 crore (up 3.9x q-o-q) was significantly above our estimate led by a sharp beat in GRM, higher-than-expected volumes, higher other income and lower interest cost/tax rate. Earnings were strong despite an inventory loss of Rs. 1,913 crore.
- BPCL posted a very strong GRM of $20.6/bbl (up 29% q-o-q), which was at premium of 4-5/bbl to GRM of IOCL/HPCL. Derived gross marketing margins (based on our backward calculations) also jumped by 136% q-o-q to Rs. 3450/tonne. Refining throughput/marketing sales volume grew strongly by 13%/2% q-o-q to 10.6 mmt/13.3 mmt.
- We expect BPCL's earnings to normalise over FY24-25 led by normalisation of crude oil prices. However, a spike in crude oil prices (from $76/bbl currently) is a key risk to earnings recovery, especially given OMCs inability to hike petrol/diesel price given general election expected to be scheduled in May 2024.
- We maintain a Buy on BPCL with a revised PT of Rs. 430 given an attractive valuation of 8.5x/1.4x FY25E EPS/BV and FY24E dividend yield of 4-5%.

Bharat Petroleum Corporation Limited's (BPCL) Q4FY23 standalone operating profit of Rs. 11,154 crore (up 163% q-o-q) was 42% above our estimate of Rs. 7867 crore led by beat in refining margins and volumes. Earnings growth were driven by strong performance of the refining segment with a GRM of $20.6/bbl (up 29% q-o-q and highest amongst OMCs) and a sharp recovery of 134% q-o-q in blended gross marketing margins to Rs. 3,540/tonne supported by positive auto fuel margins. Volume performance was also robust with 11%/3% beat in refining throughput/marketing sales volume at 10.6 mmt/13.3 mmt, up 13%/2% q-o-q. Strong operating profit growth was despite inventory loss of Rs. 1913 crore in Q4FY23. Adjusted PAT of Rs. 7,563 crore (up 3.9x q-o-q) was 75% above our estimate of Rs. 4,315 crore led by robust refining & marketing margin, beat in volumes, higher other income and lower tax rate of 20%. We have adjusted reported PAT of Rs. 6,478 crore (up 3.3x q-o-q) for Rs. 1,359 crore exceptional expenses related to impairment of investment in a subsidiary.

Key positives

- Sharp performance of refining segment with GRM at $20.6/bbl (72% above our estimate), which was much higher compared to $15/$14 per bbl for IOCL/HPCL.
- Company declared final dividend of Rs. 4/share.
- Debt declined by 11% q-o-q to Rs. 35,855 crore as of March 2023.

Key negatives

- Higher inventory loss of Rs. 1,913 crore as compared to loss of Rs. 752 crore in Q3FY23.

Revision in estimates – We have lowered our FY24 earnings estimate by 3% to factor lower GRM assumption and have fined-tuned FY25 earnings estimate.

Our Call

Valuation – Maintain Buy on BPCL with a revised PT of Rs. 430: Normalisation of crude oil prices (that recently declined to $76/bbl) and potential recovery in GRMs would drive earnings revival for BPCL over FY24-25 to normalised PAT of ~Rs. 8800-9,000 crore. Moreover, BPCL's valuation of 8.5x its FY2025E EPS and 1.4x its FY2025E P/BV is attractive and FY24E DPS implies ~4-5% dividend yield. Hence, we maintain a Buy on BPCL with a revised PT of Rs. 430 (rollover of PE multiple to FY25E EPS).

Key Risks

Sustained weak auto fuel marketing margin in case of continued inability to raise petrol/diesel prices and lower-than-expected refining margins remain a key risk to earnings and valuation.

Valuation (Standalone) Rs cr

Particulars	FY22	FY23	FY24E	FY25E
Revenue	3,46,644	4,73,125	4,16,146	4,15,752
OPM (%)	5.5	2.3	4.3	4.6
Adjusted PAT	9,720	3,230	8,774	9,148
% YoY growth	-26.5	-66.8	171.6	4.3
Adjusted EPS (Rs.)	45.6	15.2	41.2	43.0
P/E (x)	8.0	24.2	8.9	8.5
P/B (x)	1.5	1.5	1.4	1.4
EV/EBITDA (x)	5.9	10.3	5.6	5.4
RoNW (%)	18.3	6.2	16.6	16.8
RoCE (%)	20.4	7.6	19.4	26.7

Source: Company; Sharekhan estimates

Robust Q4 led by superior GRM

Q4FY23 standalone operating profit of Rs. 11,154 crore (up 163% q-o-q) was 42% above our estimate of Rs. 7867 crore led by beat in refining margins and volumes. Earnings growth were driven by strong performance of the refining segment with a reported GRM of $20.6/bbl (up 29% q-o-q and highest amongst OMCs) and a sharp recovery of 134% q-o-q in blended gross marketing margins to Rs. 3,540/tonne supported by positive auto fuel margins. Volume performance was also robust with 11%/3% beat in refining throughput/marketing sales volume at 10.6 mmt/13.3 mmt, up 13%/2% q-o-q. Strong operating profit growth was despite inventory loss of Rs. 1913 crore in Q4FY23.Adjusted PAT of Rs. 7,563 crore (up 3.9x q-o-q) was 75% above our estimate of Rs. 4,315 crore led by robust refining & marketing margin, beat in volumes, higher other income and lower tax rate of 20%. We have adjusted reported PAT of Rs. 6,478 crore (up 3.3x q-o-q) for Rs. 1,359 crore exceptional expenses related to impairment of investment in a subsidiary.

Results (Standalone) Rs cr

Particulars	Q4FY23	Q4FY22	YoY (%)	Q3FY23	QoQ (%)
Revenue	**1,18,112**	**1,04,245**	**13.3**	**1,19,158**	**-0.9**
Total Expenditure	1,06,958	98,258	8.9	1,14,924	-6.9
Operating profit	**11,154**	**5,986**	**86.3**	**4,234**	**163.4**
Other Income	733	586	25.0	452	62.2
Interest	812	646	25.8	978	-16.9
Depreciation	1,596	1,494	6.8	1,582	0.9
Exceptional income/(expense)	-1,360	0	NA		NA
Reported PBT	8,118	4,432	83.2	2,126	281.9
Adjusted PBT	**9,478**	**4,432**	**113.8**	**2,126**	**345.9**
Tax	1,641	1,931	-15.0	166	886.9
Reported PAT	6,478	2,501	159.0	1,960	230.6
Adjusted PAT	**7,563**	**2,501**	**202.4**	**1,960**	**285.9**
Equity Cap (cr)	213	213		213	
Reported EPS (Rs.)	30.4	11.7	159.0	9.2	230.6
Adjusted EPS (Rs.)	35.5	11.7	202.4	9.2	285.9
Margins (%)			**BPS**		**BPS**
OPM	9.4	5.7	370.1	3.6	589.0
Adjusted NPM	6.4	2.4	400.4	1.6	475.9
Tax rate	20.2	43.6	-2336.3	7.8	1,238.9

Source: Company; Sharekhan Research

Key operating metrics

Particulars	Q4FY23	Q4FY22	YoY (%)	Q3FY23	QoQ (%)
GRM ($/bbl)	20.6	16.4	25.7%	15.9	29.3%
Refining throughput (mmt)	10.6	10.2	4.7%	9.4	13.2%
Market sales (mmt)	13.3	12.6	5.2%	13.0	1.8%
Marketing inventory gain/(loss) - Rs. crore	-1,913	3,177	NA	-752	NA
Forex gain/(loss) - Rs. crore	193	-281	NA	-141	NA

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector View – Improving outlook but inability to hike petrol and diesel prices a concern for OMCs

OMCs' earnings remained stressed in 9FY23 on two counts – first, sustained high crude oil prices and an inability to hike retail petrol/diesel prices that would mean large marketing losses on auto fuels and second, refining margins have declined sharply due to lower transportation fuel crack spreads. Moreover, a weakening Indian Rupee would add to trouble given a rise in forex losses. OMCs' inability to hike petrol and diesel prices also remains a concern. However, we believe that the recent decline in the Brent crude price, a likely recovery in refining to mid-cycle level and normalisation of marketing margins would drive recovery in earnings of OMCs over FY24-FY25.

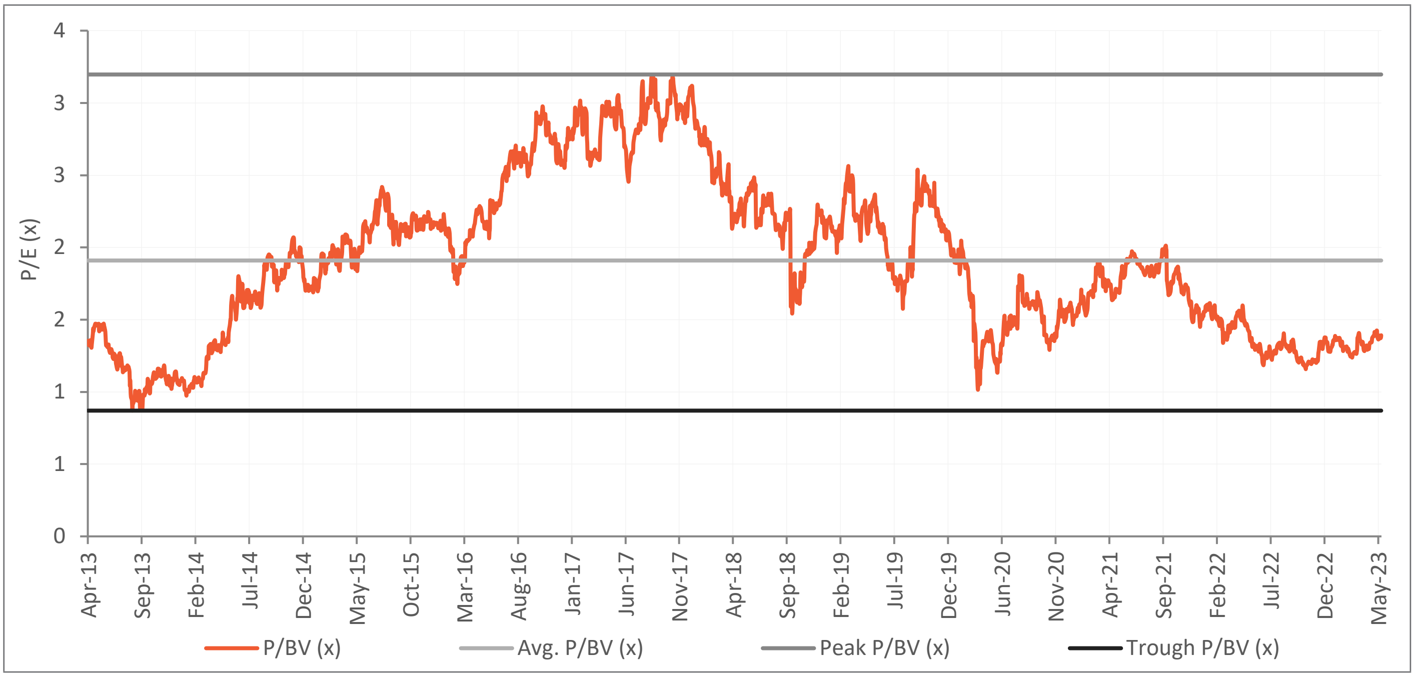
■ Company Outlook – Eyeing gradual earnings recovery

Post a steep loss in 9MFY23, BPCL's Q4FY23 earnings performance provides signs of a gradual earnings recovery if crude oil prices remain in a stable-to-declining trend. We believe that core earnings to largely normalise from over FY24-25 supported by recovery in refining margin and marketing margins (declining auto fuel under-recoveries and expectations of positive auto fuel marketing margin). Likely normalisation of international crude oil prices and stable-to-recovering GRMs hold the key for an earnings revival for OMCs.

■ Valuation – Maintain Buy on BPCL with a revised PT of Rs. 430:

Normalisation of crude oil prices (that recently declined to $76-77/bbl) and potential recovery in GRMs would drive earnings revival for BPCL over FY24-25 to normalise PAT of ~Rs. 8800-9,000 crore. Moreover, BPCL's valuation of 8.5x its FY2025E EPS and 1.4x its FY2025E P/BV is attractive and FY24E DPS implies ~4-5% dividend yield. Hence, we maintain a Buy on BPCL with a revised PT of Rs. 430 (rollover of PE multiple to FY25E EPS).

One-year forward P/E (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 recovery in refining margin and likely normalization of diesel marketing margin given recent fall in crude oil price. Hence, we expect earnings of OMCs to normalize gradually over FY24-25 post subdued performance in FY23. 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

Arun Kumar Singh	Chairman and Managing Director
Vetsa Ramakrishna Gupta	Director – Finance
Sanjay Khanna	Director – Refineries

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Life Insurance Corp of India	9.08
2	ICICI Prudential Asset Management	2.76
3	HDFC Asset Management Co Ltd	2.07
4	SBI Funds Management Ltd	2.02
5	Vanguard Group Inc/The	1.79
6	Bpcl Trust For Investment	1.52
7	BlackRock Inc	1.36
8	UTI Asset Management Co Ltd	0.54
9	SBI Pension Funds Pvt Ltd	0.53
10	ICICI Prudential Life Insurance Co	0.49

Source: Bloomberg

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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