

November 21, 2019

## Event Update

■ Change in Estimates |  Target | ■ Reco

### Change in Estimates

	Current		Previous	
	FY21E	FY22E	FY21E	FY22E
<b>Rating</b>	<b>BUY</b>		<b>BUY</b>	
<b>Target Price</b>	<b>600</b>		<b>537</b>	
Sales (Rs. m)	3,771,189	4,122,175	3,771,189	4,122,175
% Chng.	-	-	-	-
EBITDA (Rs. m)	159,039	166,855	159,039	166,855
% Chng.	-	-	-	-
EPS (Rs.)	46.7	47.5	46.7	47.5
% Chng.	-	-	-	-

### Key Financials - Standalone

Y/e Mar	FY19	FY20E	FY21E	FY22E
Sales (Rs. bn)	2,982	3,437	3,771	4,122
EBITDA (Rs. bn)	151	141	159	167
Margin (%)	5.1	4.1	4.2	4.0
PAT (Rs. bn)	85	75	92	93
EPS (Rs.)	43.4	38.2	46.7	47.5
Gr. (%)	(3.9)	(11.9)	22.2	1.8
DPS (Rs.)	21.0	13.8	16.0	15.7
Yield (%)	4.1	2.7	3.1	3.0
RoE (%)	22.6	17.3	18.2	16.8
RoCE (%)	15.1	12.2	13.8	13.7
EV/Sales (x)	0.5	0.3	0.3	0.3
EV/EBITDA (x)	9.1	8.4	7.5	6.9
PE (x)	11.9	13.5	11.0	10.8
P/BV (x)	2.6	2.1	1.9	1.7

### Key Data

BPCL.BO | BPCL IN

52-W High / Low	Rs.550 / Rs.308
Sensex / Nifty	40,575 / 11,968
Market Cap	Rs.1,115bn/ \$ 15,535m
Shares Outstanding	2,169m
3M Avg. Daily Value	Rs.11060.12m

### Shareholding Pattern (%)

Promoter's	53.29
Foreign	14.58
Domestic Institution	17.96
Public & Others	14.16
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	(1.2)	37.3	57.4
Relative	(4.3)	31.9	36.6

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## Divestment to create shareholder value

### Quick Pointers:

- Strategic divestment of BPCL to help realize optimum value; we calculate strategic investor to value government's share at ~Rs830bn.
- BPCL remains a prized asset with fully integrated operations and accordingly, expect aggressive bidding by global oil majors.

***In a significant decision, the Government has given cabinet approval to transfer government shareholding (53.29%) in BPCL, ex of the Numaligarh refinery (NRL), to a strategic investor. Transfer of management control is positive and will help the government optimize value; potential receipt ~Rs830bn, in our view. The transaction timelines remain tight and are expected to be closed by FY20 end. With ~25% fuel market share in India, BPCL will give a significant foothold in domestic market and we expect interest from range of suitors including global oil majors like Aramco, Rosneft, Shell etc. We remain positive on OMCs given benign crude price environment and value BPCL at Rs600 (Rs537 earlier) based on 8x EV/EBITDA FY22E.***

### Event: Stake sale of BPCL

The cabinet has approved divestment of 53.29% stake in BPCL, ex of NRL, to a strategic investor. The transaction is likely to be closed by FY20 end. We calculate potential value at ~Rs794/sh or Rs1.56trn given the government is ready to transfer management control of the company.

**Prized asset:** BPCL is the second largest Oil Marketing Company (OMC) after IOCL and is one of the best managed PSU with presence across refining (33.2 MTPA or 13% of Indian refining), fuel retailing (14,977 stations or 23% of total outlets), E&P stakes in Mozambique, Brazil, Russia etc along with City Gas Distribution (CGD) stake in 17 Geographical Areas. Besides, BPCL is one of the promoters of IGL, Petronet etc.

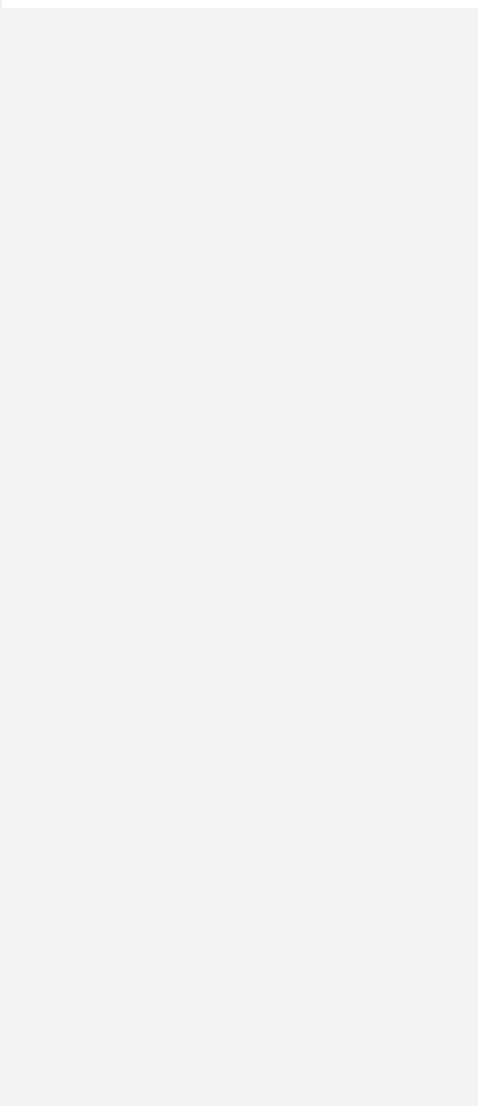
Accordingly, we expect significant interest from all the global oil players especially the oil producers like Aramco, Rosneft, Kuwait Petroleum Corporation (KPC), Abu Dhabi National Oil company (ADNOC) as they look to tie in a large oil customer. Also, ~25% fuel market share, we also expect global oil majors like Shell etc to also participate aggressively for bidding.

**Divestment of strategic investments before sale not ruled out:** Media reports suggests that the government might hive off the BPCL's investment in IGL, PLNG and Oil India prior to the sale process. In that case, we calculate investment value at Rs266bn or Rs136/sh to be distributed among existing shareholders.

**Exhibit 1: Blue sky valuation scenario**

<b>(Based on FY21E financials; Rs m)</b>	<b>BPCL</b>	<b>Bina @49%</b>	<b>BPCL Divestment</b>	<b>EV/E</b>	<b>EV</b>
Refining	72,890	14,244	87,134	7.0	609,937
Marketing	49,622		49,622	12.0	595,464
E&P					
Mozambique					180,000
Russia					72,000
Total					1,457,401
Less net debt					
BPCL					133,047
Bina					29,400
<b>Equity value</b>					<b>1,294,954</b>
<b>Add Investment</b>					
PLNG					53,175
IGL					68,625
Oil India					4,200
NRL stake value @61.65%				7.0	140,521
<b>Total</b>					<b>1,561,474</b>
BPCL share capital					1,967
BPCL value/share					793.88
Potential govt receipt (Rs m)					832,110

Source: Company, PL



## Financials

### Income Statement (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
<b>Net Revenues</b>	<b>2,982,256</b>	<b>3,436,730</b>	<b>3,771,189</b>	<b>4,122,175</b>
YoY gr. (%)	26.5	15.2	9.7	9.3
Cost of Goods Sold	2,627,487	3,059,683	3,362,250	3,690,694
Gross Profit	354,769	377,047	408,939	431,481
Margin (%)	11.9	11.0	10.8	10.5
Employee Cost	-	-	-	-
Other Expenses	-	-	-	-
<b>EBITDA</b>	<b>151,122</b>	<b>140,773</b>	<b>159,039</b>	<b>166,855</b>
YoY gr. (%)	(0.4)	(6.8)	13.0	4.9
Margin (%)	5.1	4.1	4.2	4.0
Depreciation and Amortization	34,178	41,661	46,174	51,948
<b>EBIT</b>	<b>116,945</b>	<b>99,112</b>	<b>112,865</b>	<b>114,907</b>
Margin (%)	3.9	2.9	3.0	2.8
Net Interest	17,640	21,546	21,033	21,428
Other Income	20,375	29,073	33,025	32,305
<b>Profit Before Tax</b>	<b>119,680</b>	<b>106,640</b>	<b>124,857</b>	<b>125,784</b>
Margin (%)	4.0	3.1	3.3	3.1
Total Tax	43,775	25,502	26,028	25,128
Effective tax rate (%)	36.6	23.9	20.8	20.0
<b>Profit after tax</b>	<b>75,905</b>	<b>81,138</b>	<b>98,828</b>	<b>100,656</b>
Minority interest	(9,373)	6,033	7,031	7,239
Share Profit from Associate	-	-	-	-
<b>Adjusted PAT</b>	<b>85,278</b>	<b>75,105</b>	<b>91,798</b>	<b>93,417</b>
YoY gr. (%)	(12.9)	(11.9)	22.2	1.8
Margin (%)	2.9	2.2	2.4	2.3
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>85,278</b>	<b>75,105</b>	<b>91,798</b>	<b>93,417</b>
YoY gr. (%)	(12.9)	(11.9)	22.2	1.8
Margin (%)	2.9	2.2	2.4	2.3
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	85,278	75,105	91,798	93,417
<b>Equity Shares O/s (m)</b>	<b>1,967</b>	<b>1,967</b>	<b>1,967</b>	<b>1,967</b>
<b>EPS (Rs)</b>	<b>43.4</b>	<b>38.2</b>	<b>46.7</b>	<b>47.5</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>589,214</b>	<b>775,401</b>	<b>884,901</b>	<b>964,401</b>
Tangibles	589,214	775,401	884,901	964,401
Intangibles	-	-	-	-
<b>Acc: Dep / Amortization</b>	<b>99,504</b>	<b>166,639</b>	<b>216,587</b>	<b>272,431</b>
Tangibles	99,504	166,639	216,587	272,431
Intangibles	-	-	-	-
<b>Net fixed assets</b>	<b>489,710</b>	<b>608,762</b>	<b>668,314</b>	<b>691,971</b>
Tangibles	489,710	608,762	668,314	691,971
Intangibles	-	-	-	-
Capital Work In Progress	136,545	23,617	24,566	25,610
Goodwill	3,438	2,289	2,289	2,289
Non-Current Investments	230,469	155,549	170,461	186,863
Net Deferred tax assets	(63,383)	(70,371)	(83,467)	(97,551)
Other Non-Current Assets	16,789	856	942	1,036
<b>Current Assets</b>				
Investments	57,991	63,790	70,169	77,186
Inventories	229,349	275,425	302,790	332,795
Trade receivables	69,063	92,801	101,913	111,908
Cash & Bank Balance	6,625	93,156	50,273	50,155
Other Current Assets	13,642	14,637	16,101	17,711
<b>Total Assets</b>	<b>1,369,304</b>	<b>1,453,611</b>	<b>1,542,819</b>	<b>1,646,027</b>
<b>Equity</b>				
Equity Share Capital	19,669	19,669	19,669	19,669
Other Equity	367,978	460,324	509,647	561,629
<b>Total Networkth</b>	<b>387,647</b>	<b>479,993</b>	<b>529,316</b>	<b>581,298</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	343,156	247,260	214,870	187,437
Provisions	15,376	16,824	18,506	20,357
Other non current liabilities	2,840	3,124	3,437	3,780
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	85,990	77,959	82,174	86,811
Trade payables	173,847	209,395	230,008	252,162
Other current liabilities	271,260	320,858	352,960	388,258
<b>Total Equity &amp; Liabilities</b>	<b>1,369,304</b>	<b>1,453,610</b>	<b>1,542,819</b>	<b>1,646,027</b>

Source: Company Data, PL Research



## Cash Flow (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
PBT	119,680	106,640	124,857	125,784
Add. Depreciation	34,178	41,661	46,174	51,948
Add. Interest	17,640	21,546	21,033	21,428
Less Financial Other Income	20,375	29,073	33,025	32,305
Add. Other	-	-	-	-
Op. profit before WC changes	171,498	169,846	192,064	199,160
Net Changes-WC	(42,686)	25,028	32,124	20,625
Direct tax	(28,126)	(17,725)	(22,299)	(17,313)
<b>Net cash from Op. activities</b>	<b>100,686</b>	<b>177,149</b>	<b>201,889</b>	<b>202,471</b>
Capital expenditures	(215,789)	(82,829)	(113,198)	(121,889)
Interest / Dividend Income	-	-	-	-
Others	-	(1)	-	-
<b>Net Cash from Invst. activities</b>	<b>(215,789)</b>	<b>(82,830)</b>	<b>(113,198)</b>	<b>(121,889)</b>
Issue of share cap. / premium	7,850	2,136	(32,924)	(5,615)
Debt changes	97,932	(39,973)	18,864	(17,635)
Dividend paid	(48,383)	(31,929)	(36,914)	(36,179)
Interest paid	(17,640)	(21,546)	(21,033)	(21,428)
Others	-	-	-	-
<b>Net cash from Fin. activities</b>	<b>39,760</b>	<b>(91,311)</b>	<b>(72,006)</b>	<b>(80,857)</b>
<b>Net change in cash</b>	<b>(75,343)</b>	<b>3,008</b>	<b>16,684</b>	<b>(276)</b>
Free Cash Flow	(115,103)	94,320	88,691	80,582

Source: Company Data, PL Research

## Quarterly Financials (Rs m)

Y/e Mar	Q3FY19	Q4FY19	Q1FY20	Q2FY20
<b>Net Revenue</b>	<b>791,688</b>	<b>739,904</b>	<b>763,180</b>	<b>643,408</b>
YoY gr. (%)	30.6	13.4	6.4	(11.0)
Raw Material Expenses	742,737	640,003	692,816	568,210
Gross Profit	48,952	99,901	70,364	75,198
Margin (%)	6.2	13.5	9.2	11.7
<b>EBITDA</b>	<b>7,374</b>	<b>48,050</b>	<b>21,799</b>	<b>23,749</b>
YoY gr. (%)	(76.9)	29.1	(43.7)	(1.8)
Margin (%)	0.9	6.5	2.9	3.7
Depreciation / Depletion	7,781	9,149	9,141	9,523
<b>EBIT</b>	<b>(408)</b>	<b>38,901</b>	<b>12,658</b>	<b>14,226</b>
Margin (%)	(0.1)	5.3	1.7	2.2
Net Interest	3,369	3,526	4,524	6,388
Other Income	9,672	10,576	5,385	8,713
<b>Profit before Tax</b>	<b>5,895</b>	<b>45,951</b>	<b>13,518</b>	<b>16,551</b>
Margin (%)	0.7	6.2	1.8	2.6
Total Tax	944	14,702	2,767	533
Effective tax rate (%)	16.0	32.0	20.5	3.2
<b>Profit after Tax</b>	<b>4,951</b>	<b>31,249</b>	<b>10,751</b>	<b>16,018</b>
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
<b>Adjusted PAT</b>	<b>4,951</b>	<b>31,249</b>	<b>10,751</b>	<b>16,018</b>
YoY gr. (%)	(76.9)	16.9	(53.1)	31.4
Margin (%)	0.6	4.2	1.4	2.5
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>4,951</b>	<b>31,249</b>	<b>10,751</b>	<b>16,018</b>
YoY gr. (%)	(76.9)	16.9	(53.1)	31.4
Margin (%)	0.6	4.2	1.4	2.5
Other Comprehensive Income	-	-	-	-
<b>Total Comprehensive Income</b>	<b>4,951</b>	<b>31,249</b>	<b>10,751</b>	<b>16,018</b>
Avg. Shares O/s (m)	-	-	-	-
<b>EPS (Rs)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

Source: Company Data, PL Research

## Key Financial Metrics

Y/e Mar	FY19	FY20E	FY21E	FY22E
<b>Per Share(Rs)</b>				
EPS	43.4	38.2	46.7	47.5
CEPS	60.7	59.4	70.1	73.9
BVPS	197.1	244.0	269.1	295.5
FCF	(58.5)	48.0	45.1	41.0
DPS	21.0	13.8	16.0	15.7
<b>Return Ratio(%)</b>				
RoCE	15.1	12.2	13.8	13.7
ROIC	9.0	7.6	7.9	7.6
RoE	22.6	17.3	18.2	16.8
<b>Balance Sheet</b>				
Net Debt : Equity (x)	0.9	0.4	0.3	0.3
Net Working Capital (Days)	15	17	17	17
<b>Valuation(x)</b>				
PER	11.9	13.5	11.0	10.8
P/B	2.6	2.1	1.9	1.7
P/CEPS	8.5	8.7	7.3	7.0
EV/EBITDA	9.1	8.4	7.5	6.9
EV/Sales	0.5	0.3	0.3	0.3
Dividend Yield (%)	4.1	2.7	3.1	3.0

Source: Company Data, PL Research

## Key Operating Metrics

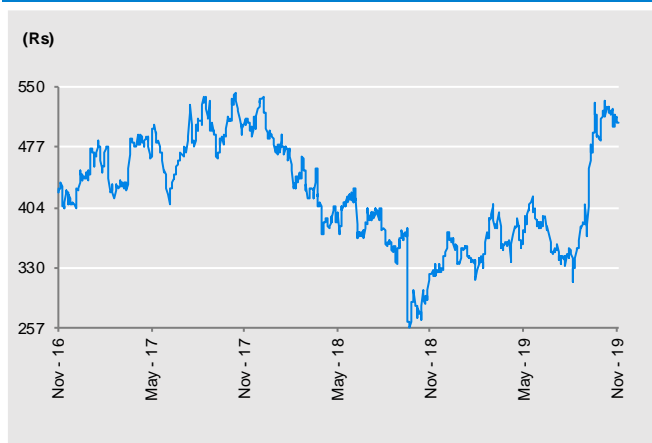
Y/e Mar	FY19	FY20E	FY21E	FY22E
Crude /bbl	70	75	80	85
US\$/Rs	71	73	75	77
GRM (US\$/bbl)	5	6	6	6
Refining volume (MTPA)	30	31	31	31

Source: Company Data, PL Research



## Price Chart

## Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	9-Nov-19	BUY	537	501
2	3-Oct-19	BUY	502	532
3	5-Sep-19	BUY	466	381
4	4-Jul-19	BUY	499	380
5	20-May-19	BUY	499	392
6	5-Apr-19	BUY	499	358
7	27-Mar-19	BUY	499	384
8	11-Feb-19	Accumulate	326	337
9	7-Jan-19	Accumulate	326	356

## Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Aarti Industries	BUY	988	799
2	Bharat Petroleum Corporation	BUY	537	501
3	GAIL (India)	BUY	188	127
4	Hindustan Petroleum Corporation	BUY	354	310
5	I.G. Petrochemicals	BUY	369	162
6	Indian Oil Corporation	BUY	209	143
7	Indraprastha Gas	BUY	468	393
8	Mahanagar Gas	BUY	1,339	1,003
9	NOCIL	BUY	174	118
10	Oil & Natural Gas Corporation	BUY	230	128
11	Oil India	Accumulate	231	161
12	Petronet LNG	BUY	352	279
13	Reliance Industries	Accumulate	1,395	1,416

## PL's Recommendation Nomenclature (Absolute Performance)

<b>Buy</b>	: > 15%
<b>Accumulate</b>	: 5% to 15%
<b>Hold</b>	: +5% to -5%
<b>Reduce</b>	: -5% to -15%
<b>Sell</b>	: < -15%
<b>Not Rated (NR)</b>	: No specific call on the stock
<b>Under Review (UR)</b>	: Rating likely to change shortly



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