

February 14, 2020

Q3FY20 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY21E	FY22E	FY21E	FY22E
Rating	BUY		BUY	
Target Price	537		600	
Sales (Rs. m)	38,28,770	42,10,946	37,71,189	41,22,175
% Chng.	1.5	2.2		
EBITDA (Rs. m)	1,41,496	1,46,018	1,59,039	1,66,855
% Chng.	(11.0)	(12.5)		
EPS (Rs.)	36.3	36.1	46.7	47.5
% Chng.	(22.3)	(23.9)		

Key Financials - Standalone

Y/e Mar	FY19	FY20E	FY21E	FY22E
Sales (Rs. bn)	2,982	3,474	3,829	4,211
EBITDA (Rs. bn)	151	132	141	146
Margin (%)	5.1	3.8	3.7	3.5
PAT (Rs. bn)	85	60	71	71
EPS (Rs.)	43.4	30.7	36.3	36.1
Gr. (%)	(3.9)	(29.3)	18.3	(0.4)
DPS (Rs.)	21.0	11.0	12.5	12.3
Yield (%)	4.5	2.3	2.7	2.6
RoE (%)	22.6	14.0	14.6	13.5
RoCE (%)	15.1	10.9	11.8	11.4
EV/Sales (x)	0.4	0.3	0.3	0.3
EV/EBITDA (x)	8.5	8.3	8.0	7.6
PE (x)	10.8	15.3	12.9	13.0
P/BV (x)	2.4	2.0	1.8	1.7

Key Data

BPCL.BO | BPCL IN

52-W High / Low	Rs.550 / Rs.308
Sensex / Nifty	41,460 / 12,175
Market Cap	Rs.1,017bn/ \$ 14,258m
Shares Outstanding	2,169m
3M Avg. Daily Value	Rs.7003.05m

Shareholding Pattern (%)

Promoter's	52.98
Foreign	14.07
Domestic Institution	18.47
Public & Others	14.49
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(0.4)	36.7	42.4
Relative	0.6	21.9	23.7

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Lower than expected results

Quick Pointers:

- Weak refining and marketing profits drag profitability
- Global refining cycle has turned weak due to new supplies coming on stream. We lower our GRM assumptions for FY20-22E.
- However, benign crude prices is positive and will support marketing profits.

We lower our FY20-22 earnings estimates by 23% to factor in lower refining margins. During Q3, core performance for BPCL was weak due to weak refining and marketing performance. While benign crude oil prices is likely to support marketing margins in medium term, refining scenario has worsened with muted demand and lower than expected diesel demand post change in marine fuel norms. Maintain BUY with a revised PT of Rs537 (Rs600 earlier) as BPCL remains a divestment play. BPCL with a fully integrated operations remains a prized asset and we expect aggressive bidding by global majors.

- Muted results:** BPCL reported lower than expected Q3FY20 results with standalone EBITDA of Rs27.0bn (+266%YoY; PLe Rs37.0bn) and PAT of Rs12.6bn (+155%YoY; PLe Rs20.2bn). Operating profits was hit by **1)** lower inventory gains of Rs5.4bn (PLe Rs12.4bn) and **2)** lower refining profits. EBITDA adjusted for inventory and forex loss was at Rs22.6bn (Rs27.8bn in Q2). For Q3, inventory gains were at Rs5.4bn with marketing accounting for Rs820mn and balance for refining. For 9M, EBITDA was at Rs72.6bn (+3%YoY).
- Core refining margins remain weak:** BPCL's refining margins for Q3FY20 came in at US\$3.2/bbl (Q2FY20 at US\$3.4/bbl) and included inventory gains of Rs4.6n or US\$1.0/bbl. So core GRMs of US\$2.2/bbl were muted and were marginally higher than benchmark Singapore refining margins of US\$1.7/bbl.
- GRMs are likely to remain under pressure due to **1)** weak demand **2)** lower than expected demand pickup from change in marine fuel norms and **3)** new capacity addition. We lower our GRM estimates to ~USD5.3/bbl for FY20-22E vis-à-vis USD5.8-6.3/bbl earlier.
- Adjusted marketing profitability remains weak:** BPCL's core Q3FY20 marketing EBITDA was at Rs17.2bn against Rs22.4bn in Q2FY20 as the company had to adopt to aggressive pricing to counter weak domestic demand. Accordingly, spreads were at Rs1396/ton for Q2 (Rs 2074 in Q2) due to higher exports of 1.32MTPA (Q2 0.56). BPCL's marketing volumes lagged industry run rate for HSD (-1.6% YoY vs 0.2% for industry), and MS (5.9% YoY against industry rate of 7.1%YoY) respectively.
- Reiterate BUY:** We maintain BUY on BPCL with a revised PT of Rs537 (Rs600 earlier) as we value based on 14x PER FY21E and add the value of investments and E&P. At our PT, the stock trades at 8.5x EV/E FY22E.

Exhibit 1: Q3FY20 Result Overview (Rs mn)

Y/e March	Q3FY20	Q3FY19	YoY gr. (%)	Q2FY20	9MFY20	9MFY19	YoY gr. (%)
Net sales	8,53,683	8,82,379	(3.3)	7,50,566	24,62,846	25,35,536	(2.9)
Inc/dec in stock	32,887	46,541	(29.3)	-28,469	20,534	-1,746	(1,276.1)
Raw material cons	2,92,865	3,09,990	(5.5)	2,72,522	8,53,403	9,06,559	(5.9)
Staff cost	8,934	8,020	11.4	9,224	27,607	26,273	5.1
Purchases	3,43,350	3,86,205	(11.1)	3,24,157	10,56,190	11,02,086	(4.2)
Duties, taxes, etc	1,06,355	90,690	17.3	1,07,159	3,08,930	3,03,962	1.6
Other expenditure	42,259	33,559	25.9	42,225	1,23,601	1,28,081	(3.5)
Exp	-8,26,650	-8,75,005	(5.5)	-7,26,817	-23,90,264	-24,65,216	(3.0)
Operating profit	27,034	7,374	266.6	23,749	72,581	70,320	3.2
Interest	-5,121	-3,369	52.0	-6,388	-16,033	-9,664	65.9
Depreciation	-9,731	-7,781	25.1	-9,523	-28,395	-22,744	24.8
Other income	5,148	9,672	(46.8)	8,713	19,246	20,532	(6.3)
Profit before tax	17,330	5,895	194.0	16,551	47,399	58,445	(18.9)
Current tax	-4,724	-944	400.6	-533	-8,024	-18,374	(56.3)
Profit after tax	12,606	4,951	154.6	16,018	39,375	40,071	(1.7)

Source: Company, PL

Exhibit 2: BPCL quarterly details

	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20
Refining thrupt (MTPA)	7.85	7.74	7.57	7.49	7.45	7.66	8.41
GRMs (USD/bbl)	7	7	6	3	3	3.4	3.2
Inventory gains/loss (Rs m)							
Marketing	1,020	14,040	5,390	(20,410)	(1,270)	1,490	820
Refining	3,460	12,750	8,960	(12,920)	(3,250)	(1,750)	4,550
Forex gains/loss (Rs m)	(1,220)	(7,050)	(9,300)	6,590	310	(3,863)	(960)
Gross debt (Rs m)	233,510	196,830	239,550	227,670	306,470	317,560	301,340

Source: Company, PL

Conference Call Highlights:

- Despite the ongoing divestment move capex for FY20/21 will be at Rs80/120bn.
- Numaligarh refinery stake sale will be concluded along with BPCL divestment. Also Govt of Assam has first right of refusal.
- Kochi refinery GRMs to improve by USD0.7/bbl from FY21 post completion of the PDPP project, which will reduce LPG production by 250ktpa for propylene.
- Refinery opex for Q33 at USD2.0/bbl.
- Bina refinery and Numaligarh refinery Q3 GRMs were at USD7.9/bbl and USD10.9/bbl (USD34.0/bbl incl excise benefits).

Financials

Income Statement (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
Net Revenues	29,82,256	34,73,747	38,28,770	42,10,946
YoY gr. (%)	26.5	16.5	10.2	10.0
Cost of Goods Sold	26,27,487	31,05,302	34,37,429	38,00,393
Gross Profit	3,54,769	3,68,446	3,91,341	4,10,553
Margin (%)	11.9	10.6	10.2	9.7
Employee Cost	-	-	-	-
Other Expenses	-	-	-	-
EBITDA	1,51,122	1,32,195	1,41,496	1,46,018
YoY gr. (%)	(0.4)	(12.5)	7.0	3.2
Margin (%)	5.1	3.8	3.7	3.5
Depreciation and Amortization	34,178	43,939	47,444	53,387
EBIT	1,16,945	88,256	94,053	92,631
Margin (%)	3.9	2.5	2.5	2.2
Net Interest	17,640	25,906	25,831	26,885
Other Income	20,375	25,778	31,936	34,319
Profit Before Tax	1,19,680	88,127	1,00,158	1,00,065
Margin (%)	4.0	2.5	2.6	2.4
Total Tax	43,775	21,778	21,784	21,742
Effective tax rate (%)	36.6	24.7	21.7	21.7
Profit after tax	75,905	66,349	78,375	78,323
Minority interest	(9,373)	6,033	7,031	7,239
Share Profit from Associate	-	-	-	-
Adjusted PAT	85,278	60,316	71,344	71,084
YoY gr. (%)	(12.9)	(29.3)	18.3	(0.4)
Margin (%)	2.9	1.7	1.9	1.7
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	85,278	60,316	71,344	71,084
YoY gr. (%)	(12.9)	(29.3)	18.3	(0.4)
Margin (%)	2.9	1.7	1.9	1.7
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	85,278	60,316	71,344	71,084
Equity Shares O/s (m)	1,967	1,967	1,967	1,967
EPS (Rs)	43.4	30.7	36.3	36.1

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
Non-Current Assets				
Gross Block	5,89,214	7,75,401	8,84,901	9,64,401
Tangibles	5,89,214	7,75,401	8,84,901	9,64,401
Intangibles	-	-	-	-
Acc: Dep / Amortization	99,504	1,68,917	2,20,135	2,77,418
Tangibles	99,504	1,68,917	2,20,135	2,77,418
Intangibles	-	-	-	-
Net fixed assets	4,89,710	6,06,484	6,64,767	6,86,983
Tangibles	4,89,710	6,06,484	6,64,767	6,86,983
Intangibles	-	-	-	-
Capital Work In Progress	1,36,545	23,617	24,566	25,610
Goodwill	3,438	2,289	2,289	2,289
Non-Current Investments	2,30,469	1,55,549	1,70,461	1,86,863
Net Deferred tax assets	(63,383)	(67,935)	(77,155)	(86,307)
Other Non-Current Assets	16,789	856	942	1,036
Current Assets				
Investments	57,991	63,790	70,169	77,186
Inventories	2,29,349	2,77,806	3,06,342	3,38,269
Trade receivables	69,063	93,530	1,02,996	1,13,578
Cash & Bank Balance	6,625	83,162	23,910	3,287
Other Current Assets	13,642	14,637	16,101	17,711
Total Assets	13,69,304	14,44,450	15,17,544	16,01,315
Equity				
Equity Share Capital	19,669	19,669	19,669	19,669
Other Equity	3,67,978	4,51,575	4,87,598	5,23,402
Total Networkth	3,87,647	4,71,244	5,07,266	5,43,071
Non-Current Liabilities				
Long Term borrowings	3,43,156	2,47,260	2,14,870	1,87,437
Provisions	15,376	16,824	18,506	20,357
Other non current liabilities	2,840	3,124	3,437	3,780
Current Liabilities				
ST Debt / Current of LT Debt	85,990	77,959	82,174	86,811
Trade payables	1,73,847	2,11,419	2,33,095	2,56,920
Other current liabilities	2,71,260	3,20,858	3,52,960	3,88,258
Total Equity & Liabilities	13,69,304	14,44,450	15,17,544	16,01,315

Source: Company Data, PL Research



Cash Flow (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
PBT	1,19,680	88,127	1,00,158	1,00,065
Add. Depreciation	34,178	43,939	47,444	53,387
Add. Interest	17,640	25,906	25,831	26,885
Less Financial Other Income	20,375	25,778	31,936	34,319
Add. Other	14,392	40,292	9,054	8,970
Op. profit before WC changes	1,85,890	1,98,264	1,82,487	1,89,307
Net Changes-WC	(16,219)	1,666	2,040	1,503
Direct tax	(28,126)	(15,817)	(17,517)	(17,547)
Net cash from Op. activities	1,41,545	1,84,114	1,67,010	1,73,264
Capital expenditures	(1,14,671)	20,890	(1,18,012)	(89,118)
Interest / Dividend Income	-	-	-	-
Others	(3,379)	(2,955)	(671)	(738)
Net Cash from Inv. activities	(1,18,050)	17,936	(1,18,683)	(89,856)
Issue of share cap. / premium	(20,061)	35,524	(18,432)	(18,850)
Debt changes	59,172	(1,03,926)	(28,175)	(22,797)
Dividend paid	(48,383)	(25,405)	(28,763)	(28,482)
Interest paid	(17,640)	(25,906)	(25,831)	(26,885)
Others	-	-	-	-
Net cash from Fin. activities	(26,911)	(1,19,714)	(1,01,200)	(97,014)
Net change in cash	(3,415)	82,336	(52,873)	(13,606)
Free Cash Flow	26,874	2,05,004	48,998	84,146

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q4FY19	Q1FY20	Q2FY20	Q3FY20
Net Revenue	7,39,904	7,63,180	6,43,408	7,47,328
YoY gr. (%)	13.4	6.4	(11.0)	(5.6)
Raw Material Expenses	6,40,003	6,92,816	5,68,210	6,69,101
Gross Profit	99,901	70,364	75,198	78,227
Margin (%)	13.5	9.2	11.7	10.5
EBITDA	48,050	21,799	23,749	27,034
YoY gr. (%)	29.1	(43.7)	(1.8)	266.6
Margin (%)	6.5	2.9	3.7	3.6
Depreciation / Depletion	9,149	9,141	9,523	9,731
EBIT	38,901	12,658	14,226	17,303
Margin (%)	5.3	1.7	2.2	2.3
Net Interest	3,526	4,524	6,388	5,121
Other Income	10,576	5,385	8,713	5,148
Profit before Tax	45,951	13,518	16,551	17,330
Margin (%)	6.2	1.8	2.6	2.3
Total Tax	14,702	2,767	533	4,724
Effective tax rate (%)	32.0	20.5	3.2	27.3
Profit after Tax	31,249	10,751	16,018	12,606
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	31,249	10,751	16,018	12,606
YoY gr. (%)	16.9	(53.1)	31.4	154.6
Margin (%)	4.2	1.4	2.5	1.7
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	31,249	10,751	16,018	12,606
YoY gr. (%)	16.9	(53.1)	31.4	154.6
Margin (%)	4.2	1.4	2.5	1.7
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	31,249	10,751	16,018	12,606
Avg. Shares O/s (m)	-	-	-	-
EPS (Rs)	-	-	-	-

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY19	FY20E	FY21E	FY22E
Per Share(Rs)				
EPS	43.4	30.7	36.3	36.1
CEPS	60.7	53.0	60.4	63.3
BVPS	197.1	239.6	257.9	276.1
FCF	13.7	104.2	24.9	42.8
DPS	21.0	11.0	12.5	12.3
Return Ratio(%)				
RoCE	15.1	10.9	11.8	11.4
ROIC	9.0	6.8	6.6	6.1
RoE	22.6	14.0	14.6	13.5
Balance Sheet				
Net Debt : Equity (x)	0.9	0.4	0.4	0.4
Net Working Capital (Days)	15	17	17	17
Valuation(x)				
PER	10.8	15.3	12.9	13.0
P/B	2.4	2.0	1.8	1.7
P/CEPS	7.7	8.8	7.8	7.4
EV/EBITDA	8.5	8.3	8.0	7.6
EV/Sales	0.4	0.3	0.3	0.3
Dividend Yield (%)	4.5	2.3	2.7	2.6

Source: Company Data, PL Research

Key Operating Metrics

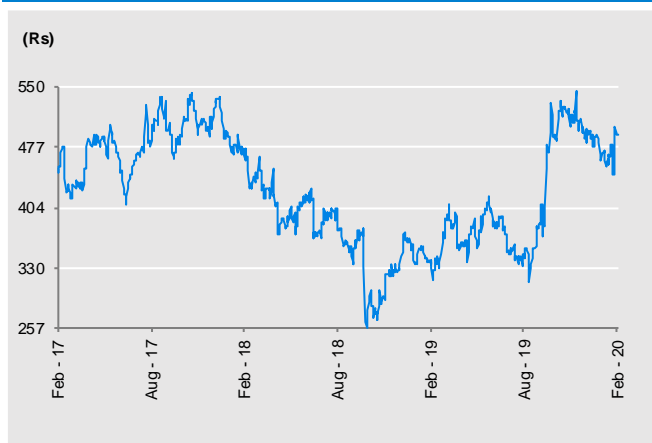
Y/e Mar	FY19	FY20E	FY21E	FY22E
Crude /bbl	70	75	80	85
US\$/Rs	71	73	75	77
GRM (US\$/bbl)	5	5	5	5
Refining volume (MTPA)	30	31	32	32

Source: Company Data, PL Research



Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	03-Jan-20	BUY	600	484
2	21-Nov-19	BUY	600	514
3	09-Nov-19	BUY	537	501
4	03-Oct-19	BUY	502	532
5	05-Sep-19	BUY	466	381
6	04-Jul-19	BUY	499	380
7	20-May-19	BUY	499	392
8	05-Apr-19	BUY	499	358
9	27-Mar-19	BUY	499	384

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Aarti Industries	BUY	1,154	972
2	Bharat Petroleum Corporation	BUY	600	484
3	GAIL (India)	BUY	170	122
4	Hindustan Petroleum Corporation	BUY	295	237
5	I.G. Petrochemicals	BUY	175	171
6	Indian Oil Corporation	BUY	145	113
7	Indraprastha Gas	BUY	616	522
8	Mahanagar Gas	BUY	1,348	1,195
9	NOCIL	BUY	129	109
10	Oil & Natural Gas Corporation	BUY	184	128
11	Oil India	Accumulate	186	134
12	Petronet LNG	BUY	388	271
13	Reliance Industries	BUY	1,705	1,581

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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