

CMP: ₹ 326

Target: ₹ 320 (-2%)

Target Period: 12 months

HOLD

August 10, 2022

## Weak marketing segment leads to losses...

**About the stock:** Bharat Petroleum Corporation (BPCL) is a public sector refining & marketing company.

- BPCL operates more than 19000 retail outlets across the country
- Petrol & diesel together constitute 63% of marketing sales in FY22

**Q1FY23 Results:** BPCL reported sharply lower-than-expected earnings in Q1FY23.

- Revenue was up 12% QoQ to ₹ 123550.9 crore (our estimate: ₹ 127691.6 crore)
- GRM was broadly in line with estimates at US\$27.5/bbl (our estimate: US\$26.5/bbl). EBITDA loss was ₹ 5901.8 crore against EBITDA of ₹ 4249.3 crore in Q4FY22 (estimated EBITDA loss: ₹ 1005.9 crore)
- The company reported net loss of ₹ 6290.8 crore compared to PAT of ₹ 2130.5 crore in Q4FY22 (estimated loss: ₹ 1641.7 crore)

**What should investors do?** BPCL's GRM improved during Q1FY23. We expect it to stabilise at lower levels taking into account recent product spreads trend. The company has not passed on higher crude oil costs to customers while weaker marketing profitability is likely to impact earnings in the near term.

- We maintain our **HOLD** rating on the stock

**Target Price and Valuation:** We value BPCL at ₹ 320 i.e. average of P/BV multiple: ₹ 324/share and P/E multiple: ₹ 316/share

**Key triggers for future price performance:**

- Stability in global refining product cracks (mainly diesel)
- Passing on higher crude oil costs to customers
- Consistent dividend payout

**Alternate Stock Idea:** Apart from BPCL, in our oil & gas coverage we also like Gail.

- Gail is India's leading gas transmission company, which is a beneficiary of increasing gas consumption. Stable volume growth along with higher profitability from gas trading, petchem and LPG segment due to higher oil prices will add value
- BUY with a target price of ₹ 160



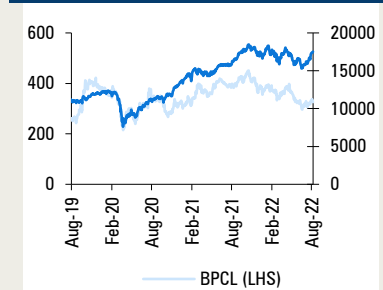
### Particulars

Particular	Amount
Market Capitalization (₹ Crore)	69,420.1
Total Debt (FY22) (₹ Crore)	37,256.2
Cash and Investments (FY22)	834.6
EV (₹ Crore)	1,05,841.6
52 week H/L	503/ 293
Equity capital (₹ Crore)	2,129.5
Face value (₹)	10.0

### Shareholding pattern

(in %)	Sep-21	Dec-21	Mar-22	Jun-22
Promoter	53.0	53.0	53.0	53.0
FII	12.0	12.7	13.7	13.2
DII	21.7	21.1	19.9	20.7
Others	13.3	13.2	13.5	13.2

### Price Chart



### Recent event & key risks

- **Key Risk:** (i) Higher than expected GRM, (ii) Lower than estimated marketing earnings

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### Key Financial Summary

(Year-end March)	FY19	FY20	FY21	FY22	5 year CAGR (FY17-22E)	FY23E	FY24E	2 year CAGR (FY22-24E)
Revenues (₹ crore)	3,37,495.3	3,27,580.8	3,01,865.0	4,33,406.5	12.4	5,02,744.2	4,73,504.4	4.5
EBITDA (₹ crore)	11,837.0	6,639.3	17,130.6	16,192.8	8.4	4,036.3	17,560.5	4.1
Net Profit (₹ crore)	7,132.0	2,683.2	19,041.7	8,788.7	1.8	(1,678.4)	8,991.1	1.1
EPS (₹)	36.3	13.6	91.0	41.3		(7.9)	42.2	
P/E (x)	9.0	23.9	3.6	7.9		(41.4)	7.7	
Price / Book (x)	1.7	1.9	1.3	1.4		1.6	1.4	
EV/EBITDA (x)	7.9	16.8	5.6	6.5		27.4	6.3	
RoCE (%)	13.1	3.5	14.8	13.2		(1.7)	13.2	
RoE (%)	19.4	8.1	34.9	17.7		(3.8)	18.6	

Source: Company, ICICI Direct Research, FY22 numbers are pre-amalgamation

## Key takeaways of recent quarter & conference call highlights

### Q1FY23 Results: Marketing margins weaker than estimated

- Bharat Oman Refineries (BORL), a wholly owned subsidiary, has been merged with BPCL. Accordingly, the company has reported numbers post amalgamation in Q1FY23
- BPCL's marketing sales were at 11.8 MMT (flat QoQ, up 22.1% YoY), in line with estimate. The company reported marketing inventory loss and forex loss of ₹ 371 crore and ₹ 964.5 crore, respectively
- We expect marketing sales at 46.1 MMT and 48.1 MMT in FY23E and FY24E, respectively
- BPCL achieved crude throughput of 9.7 MMT post amalgamation of BORL. BORL has 7.8 MMTPA refining capacity. Going ahead, on account of increased capacity, we estimate crude throughput of 37.4 MMT and 40 MMT in FY23E and FY24E, respectively
- Reported GRMs at US\$27.5/bbl were broadly in line with estimate. The company did not disclose refining inventory details. Going ahead, we estimate GRM at US\$14.3/bbl and US\$8/bbl in FY23E and FY24E, respectively taking into account current product cracks trend

## Peer comparison

Exhibit 1: Peer Comparison

Sector / Company	CMP (₹)	TP (₹)	Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
					FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
BPCL (BHAPET)	326	320	Hold	69,420	41.3	-7.9	42.2	7.9	-41.4	7.7	6.5	27.4	6.3	13.2	-1.7	13.2	17.7	-3.8	18.6
HPCL (HINPET)	231	255	Hold	32,778	44.9	8.0	42.8	5.1	29.0	5.4	7.8	16.4	7.1	7.3	0.8	7.3	16.5	3.0	15.0
Indian Oil Corp (INDOIL)	71	80	Hold	1,00,614	17.1	7.7	13.1	4.2	9.3	5.4	2.3	3.4	2.5	12.9	6.4	9.6	18.4	8.3	13.3

Source: Company, ICICI Direct Research, FY22 numbers are pre-amalgamation

Exhibit 2: Variance Analysis

	Q1FY23	Q1FY23E	Q1FY22	YoY (%)	Q4FY22	QoQ (%)	Comments
Total Revenues	1,38,405.8	1,27,691.6	89,687.1	54.3	1,23,550.9	12.0	
Raw materials costs	63,588.3	45,346.0	26,805.3	137.2	44,459.5	43.0	
Employees Cost	624.6	812.8	738.9	-15.5	914.0	-31.7	
Other Expenses	80,094.8	82,538.6	58,890.2	36.0	73,928.1	8.3	
Total Expenditure	1,44,307.6	1,28,697.4	86,434.4	67.0	1,19,301.6	21.0	
EBITDA	-5,901.8	-1,005.9	3,252.7	-281.4	4,249.3	-238.9	While GRMs were broadly in line with estimates, marketing profitability was sharply lower than expected
EBITDA margins (%)	-4.3	-0.8	3.6	-789 bps	3.4	-770 bps	
Depreciation	1,610.7	1,299.7	1,144.6	40.7	1,273.6	26.5	
EBIT	-7,512.5	-2,305.5	2,108.2	-456.4	2,975.8	-352.5	
Interest	615.5	524.3	486.7	26.5	533.8	15.3	
Other Income	440.3	635.0	451.7	-2.5	597.6	-26.3	
Extra Ordinary Item	0.0	0.0	-77.1	NA	0.0	NA	
PBT	-7,687.7	-2,194.8	1,996.1	-485.1	3,039.6	-352.9	
Total Tax	-1,396.9	-553.1	494.5	-382.5	909.0	-253.7	
PAT	-6,290.8	-1,641.7	1,501.6	-518.9	2,130.5	-395.3	

Key Metrics

Exchange rate (₹/\$)	77.3	77.3	73.9	4.6	75.2	2.7	
Throughput (mmt)	9.7	7.5	6.8	41.7	8.1	19.3	The company reported consolidated numbers post merger with BORL. This led to beat on throughput estimates
Sales (mmt)	11.8	11.6	9.6	22.1	11.8	-0.5	
GRM (\$/barrel)	27.5	26.5	4.1	567.7	15.3	80.3	In line with estimates

Source: Company, ICICI Direct Research, FY22 numbers are pre-amalgamation

Exhibit 3: Change in estimates

(₹ Crore)	FY23E			FY24E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	506294.1	5,02,744.2	-0.7	462920.5	4,73,504.4	2.3	
EBITDA	11965.0	4,036.3	-66.3	17915.0	17,560.5	-2.0	Revised estimates post Q1FY23 taking into account product cracks and marketing profitability trend
EBITDA Margin (%)	2.4	0.8	-156 bps	3.9	3.7	-16 bps	
PAT	5392.4	-1,678.4	-131.1	9535.3	8,991.1	-5.7	
EPS (₹)	25.3	-7.9	-131.1	44.8	42.2	-5.7	

Source: ICICI Direct Research

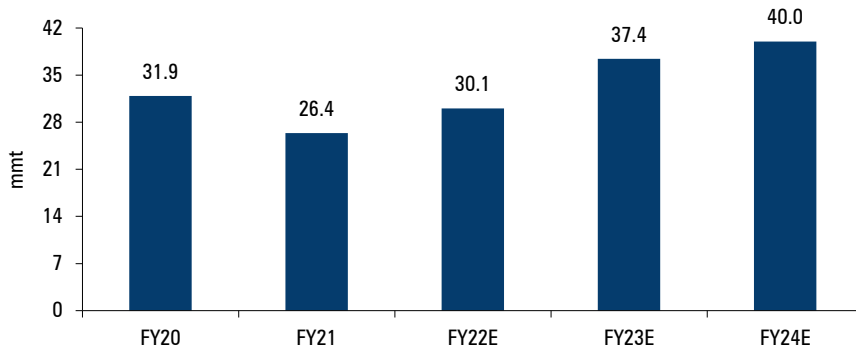
Exhibit 4: Assumptions

	Current				Earlier		Comments
	FY21	FY22	FY23E	FY24E	FY23E	FY24E	
Exchange rate (₹/\$)	74.0	74.6	78.5	79.0	76.7	76.5	
Throughput (mmt)	26.4	30.1	37.4	40.0	31.5	32.4	We incorporated BORL estimates post amalgamation
Sales (mmt)	38.7	42.5	46.1	48.1	47.5	49.6	
GRM (\$/barrel)	4.1	9.1	14.3	8.0	16.2	8.0	

Source: ICICI Direct Research, FY22 numbers are pre-amalgamation

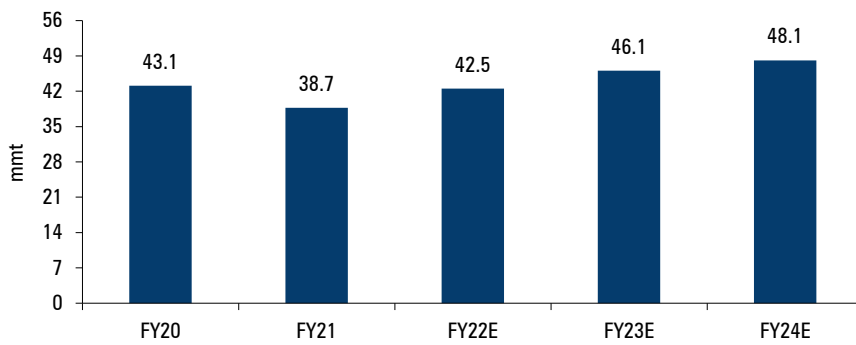
## Story in charts

Exhibit 5: Oil throughput trend



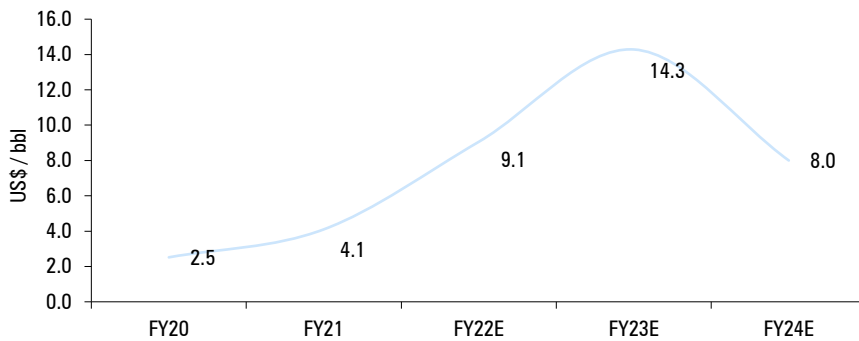
Source: Company, ICICI Direct Research, FY22 numbers are pre-amalgamation

Exhibit 6: Marketing sales volume trend



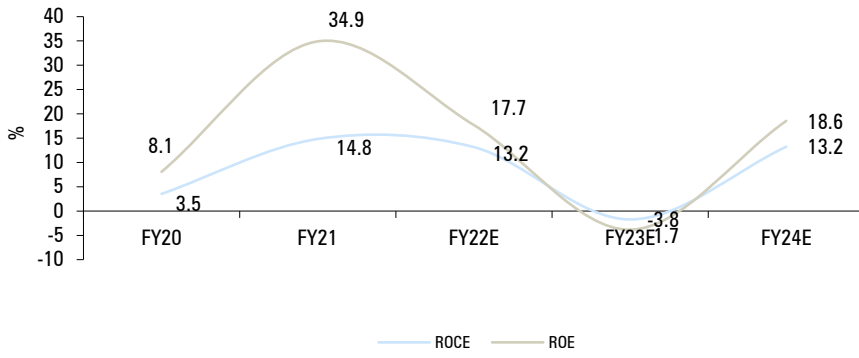
Source: Company, ICICI Direct Research

Exhibit 7: Refining margin trend



Source: Company, ICICI Direct Research, FY22 numbers are pre-amalgamation

**Exhibit 8: Return ratios trend**



Source: Company, ICICI Direct Research, FY22 numbers are pre-amalgamation

## Financial Summary

Exhibit 9: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
<b>Revenue</b>	<b>301865.0</b>	<b>433406.5</b>	<b>502744.2</b>	<b>473504.4</b>
Growth (%)	-7.9	43.6	16.0	-5.8
(Inc.)/(Dec.) in stock in trade	-3633.6	-4288.7	-739.7	0.0
Raw material Costs	71153.6	138708.5	214100.5	194117.2
Purchase of Products	127800.9	189085.8	194312.7	174480.5
Employee Costs	4477.2	3314.5	3367.5	3586.4
Other Expenditure	84936.3	90393.7	87666.9	83759.8
Op. Expenditure	284734.4	417213.7	498707.9	455943.9
<b>EBITDA</b>	<b>17130.6</b>	<b>16192.8</b>	<b>4036.3</b>	<b>17560.5</b>
Growth (%)	158.0	-5.5	-75.1	335.1
Depreciation	3978.1	4754.3	5509.6	5689.9
EBIT	13152.6	11438.6	-1473.3	11870.5
Interest	1328.4	1860.5	2393.3	2490.4
Other Income	10793.4	2335.4	2345.3	2640.0
PBT	22617.6	11913.4	-1521.4	12020.1
Growth (%)	746.8	-47.3	-112.8	-890.1
Tax	3575.9	3124.7	157.0	3029.1
<b>Reported PAT</b>	<b>19041.7</b>	<b>8788.7</b>	<b>-1678.4</b>	<b>8991.1</b>
Growth (%)	609.7	-53.8	-119.1	-635.7
<b>EPS</b>	<b>91.0</b>	<b>41.3</b>	<b>-7.9</b>	<b>42.2</b>

Source: Company, ICICI Direct Research, FY22 numbers are pre-amalgamation

Exhibit 10: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Profit after Tax	19,041.7	8,788.7	-1,678.4	8,991.1
Add: Depreciation	3,978.1	4,754.3	5,509.6	5,689.9
Add: Others	-1,495.7	411.2	100.0	100.0
Cash Profit	21,524.0	26,104.2	3,931.2	14,781.0
Increase/(Decrease) in CL	9,144.0	11,284.6	10,514.1	-4,429.3
(Increase)/Decrease in CA	-13,948.3	-12,147.5	-5,965.1	3,274.1
<b>CF from Operating Activities</b>	<b>16719.7</b>	<b>25241.3</b>	<b>8480.2</b>	<b>13625.8</b>
Purchase of Fixed Assets	8,910.8	6,190.0	7,824.0	7,763.0
(Inc)/Dec in Investments	-1,626.1	-2,552.7	-1,000.0	-1,000.0
Others	0.0	0.0	0.0	0.0
<b>CF from Investing Activities</b>	<b>-10536.9</b>	<b>-8742.7</b>	<b>-8824.0</b>	<b>-8763.0</b>
Inc/(Dec) in Loan Funds	-13,658.4	3,095.8	4,500.0	-500.0
Less: Dividend Paid	-7,569.6	26,900.9	4,258.9	4,258.9
Inc/(Dec) in Sh. Cap. & Res.	6,843.9	1,087.4	0.0	0.0
Others	0.0	0.0	0.0	0.0
<b>CF from financing activities</b>	<b>755.1</b>	<b>-22,717.7</b>	<b>241.1</b>	<b>-4,758.9</b>
Change in cash Eq.	6,937.9	-6,219.1	-102.8	103.9
Op. Cash and cash Eq.	115.8	7,053.7	834.6	731.9
<b>Cl. Cash and cash Eq.</b>	<b>7,053.7</b>	<b>834.6</b>	<b>731.9</b>	<b>835.8</b>

Source: Company, ICICI Direct Research, FY22 numbers are pre-amalgamation

Exhibit 11: Balance Sheet				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
<b>Source of Funds</b>				
Equity Capital	2,092.9	2,129.5	2,129.5	2,129.5
Preference capital	0.0	0.0	0.0	0.0
Reserves & Surplus	52,451.6	47,540.3	41,603.1	46,335.2
Shareholder's Fund	54,544.5	49,669.8	43,732.5	48,464.7
Loan Funds	34,160.3	37,256.2	41,756.2	41,256.2
Deferred Tax Liability	4,471.6	4,882.7	4,982.7	5,082.7
Minority Interest	0.0	0.0	0.0	0.0
<b>Source of Funds</b>	<b>93176.4</b>	<b>91808.7</b>	<b>90471.4</b>	<b>94803.6</b>
<b>Application of Funds</b>				
Gross Block	80,968.5	90,682.7	99,432.7	1,08,182.7
Less: Acc. Depreciation	16,674.6	21,171.0	26,356.6	32,033.5
Net Block	64,293.9	69,511.7	73,076.1	76,149.2
Capital WIP	7,094.8	3,312.7	2,062.7	1,062.7
Total Fixed Assets	71,388.6	72,824.3	75,138.8	77,211.9
Investments	17,684.1	20,236.8	21,236.8	22,236.8
Inventories	26,756.8	36,307.1	41,321.4	38,918.2
Debtor	7,827.5	9,738.3	11,019.0	10,378.2
Cash	7,053.7	834.6	731.9	835.8
Loan & Advance, Other CA	9872.6	10558.9	10228.9	9998.9
Total Current assets	51510.5	57438.9	63301.2	60131.0
Current Liabilities	43121.9	54207.3	66114.3	59674.5
Provisions	4284.9	4484.1	3091.1	5101.6
Total CL and Provisions	47406.8	58691.4	69205.4	64776.1
Net Working Capital	4103.7	-1252.5	-5904.2	-4645.2
Miscellaneous expense	0.0	0.0	0.0	0.0
<b>Application of Funds</b>	<b>93176.4</b>	<b>91808.7</b>	<b>90471.4</b>	<b>94803.6</b>

Source: Company, ICICI Direct Research, FY22 numbers are pre-amalgamation

Exhibit 12: Key ratios				
(Year-end March)	FY21	FY22	FY23E	FY24E
<b>Per share data (₹)</b>				
Book Value	260.6	233.3	205.4	227.6
Cash per share	33.7	3.9	3.4	3.9
EPS	91.0	41.3	-7.9	42.2
Cash EPS	110.0	63.6	18.0	68.9
DPS	79.0	16.0	20.0	20.0
<b>Profitability &amp; Operating Ratios</b>				
EBITDA Margin (%)	5.7	3.7	0.8	3.7
PAT Margin (%)	6.3	2.0	-0.3	1.9
Fixed Asset Turnover (x)	4.2	6.0	6.7	6.1
Inventory Turnover (Days)	32.4	30.6	30.0	30.0
Debtor (Days)	9.5	8.2	8.0	8.0
Current Liabilities (Days)	52.1	45.7	48.0	46.0
<b>Return Ratios (%)</b>				
RoE	34.9	17.7	-3.8	18.6
RoCE	14.8	13.2	-1.7	13.2
RoIC	16.6	13.6	-1.8	13.5
<b>Valuation Ratios (x)</b>				
PE	3.6	7.9	-41.4	7.7
Price to Book Value	1.3	1.4	1.6	1.4
EV/EBITDA	5.6	6.5	27.4	6.3
EV/Sales	0.3	0.2	0.2	0.2
<b>Leverage &amp; Solvency Ratios</b>				
Debt to equity (x)	0.6	0.8	1.0	0.9
Interest Coverage (x)	9.9	6.1	-0.6	4.8
Debt to EBITDA (x)	2.0	2.3	10.3	2.3
Current Ratio	1.1	1.0	0.9	0.9
Quick ratio	0.5	0.4	0.3	0.3

Source: Company, ICICI Direct Research, FY22 numbers are pre-amalgamation

**Exhibit 13: ICICI Direct coverage universe (Oil & Gas)**

Sector / Company	CMP (₹)	TP (₹)	Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
					FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
BPCL (BHAPET)	326	320	Hold	69,420	41.3	-7.9	42.2	7.9	-41.4	7.7	6.5	27.4	6.3	13.2	-1.7	13.2	17.7	-3.8	18.6
GAIL (India) (GAIL)	133	160	Buy	59,057	23.3	22.2	15.1	5.7	6.0	8.8	4.6	4.5	6.5	18.8	16.3	9.6	18.6	15.7	10.1
Gujarat Gas (GUJGA)	444	500	Hold	30,565	18.9	18.3	21.7	23.5	24.3	20.5	15.0	15.1	12.7	26.9	22.9	23.4	23.2	19.2	19.3
HPCL (HINPET)	231	255	Hold	32,778	44.9	8.0	42.8	5.1	29.0	5.4	7.8	16.4	7.1	7.3	0.8	7.3	16.5	3.0	15.0
Indian Oil Corp (INDOIL)	71	80	Hold	1,00,614	17.1	7.7	13.1	4.2	9.3	5.4	2.3	3.4	2.5	12.9	6.4	9.6	18.4	8.3	13.3
Indraprastha Gas (INDGAS)	366	440	Buy	25,620	18.8	20.6	23.0	19.4	17.7	15.9	12.9	11.1	9.7	22.3	22.0	21.1	19.0	18.1	17.5
Mahanagar Gas (MAHGAS)	817	850	Hold	8,070	60.4	75.7	81.9	13.5	10.8	10.0	8.3	6.5	5.8	19.8	22.4	21.6	16.6	18.5	17.8
Petronet LNG (PETLNG)	216	215	Hold	32,400	22.3	18.1	19.5	9.7	11.9	11.1	5.9	7.0	6.2	27.0	20.3	21.1	25.0	19.3	19.7
Reliance Industries (RELIND)	2,572	2,700	Hold	17,39,958	89.7	104.1	123.7	28.7	24.7	20.8	18.6	13.8	11.5	7.1	9.2	10.4	7.8	8.3	9.1

Source: Bloomberg, ICICI Direct Research, FY22 numbers are pre-amalgamation

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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