

## One-time LPG grant reduces 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

**Q2FY23 Results:** BPCL reported higher-than-expected earnings in Q2FY23.

- Revenue was up 26% YoY (down 7.3% QoQ) to ₹ 128332.7 crore (our estimate: ₹ 113206.7 crore)
- GRM was above our estimates at US\$16.8/bbl (our estimate: US\$5.1/bbl). The company received a one-time grant of ₹ 5582 crore for under-recoveries on sale of domestic LPG. EBITDA was ₹ 1434 crore against EBITDA loss of ₹ 5865 crore in Q1FY23 (estimated EBITDA loss: ₹ 6493 crore)
- Net loss was at ₹ 304.2 crore in Q2FY23 (estimated loss: ₹ 5755.1 crore)

**What should investors do?** BPCL's GRM declined from elevated levels seen in Q1FY23. 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 ₹ 330 i.e. average of P/BV multiple: ₹ 330/share and P/E multiple: ₹ 330/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
- It operates a natural gas pipeline network of 14500 km as of end of FY22



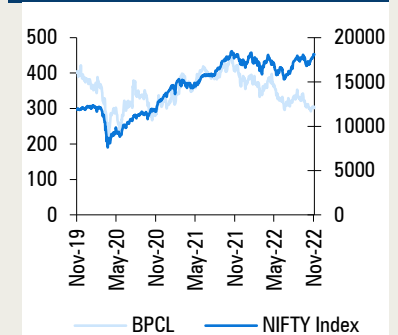
### Particulars

Particular	Amount
Market Capitalization (₹ Crore)	65,800.0
Total Debt (FY22) (₹ Crore)	37,256.2
Cash and Investments (FY22) (₹ Crore)	981.3
EV (₹ Crore)	1,02,074.9
52 week H/L	434/ 288
Equity capital (₹ Crore)	2,129.5
Face value (₹)	10.0

### Shareholding pattern

(in %)	Dec-21	Mar-22	Jun-22	Sep-22
Promoter	53.0	53.0	53.0	53.0
FII	12.7	13.7	13.2	13.0
DII	21.1	19.9	20.7	20.9
Others	13.2	13.5	13.2	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 (FY22E-24E)
Revenues (₹ crore)	3,37,495.3	3,27,580.8	3,01,865.0	4,33,664.0	12.4	4,79,264.1	4,28,627.9	(0.6)
EBITDA (₹ crore)	11,837.0	6,639.3	17,130.6	16,482.3	8.8	3,660.9	21,486.9	14.2
Net Profit (₹ crore)	7,132.0	2,683.2	19,041.7	8,935.4	2.1	(2,385.4)	11,774.8	14.8
EPS (₹)	36.3	13.6	91.0	42.0		(11.2)	55.3	
P/E (x)	8.5	22.7	3.4	7.4		(27.6)	5.6	
Price / Book (x)	1.7	1.8	1.2	1.3		1.4	1.2	
EV/EBITDA (x)	7.6	16.3	5.4	6.2		29.1	4.7	
RoCE (%)	13.1	3.5	14.8	13.2		(2.2)	15.2	
RoE (%)	19.4	8.1	34.9	17.9		(5.0)	21.4	

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

## Key takeaways of recent quarter & conference call highlights

### Q2FY23 Results: Refining margins higher than estimated

- Bharat Oman Refineries (BORL) and Bharat Gas Resources (BGRL), wholly owned subsidiaries, have been merged with BPCL. Accordingly, the company has reported numbers post amalgamation in Q2FY23
- BPCL's marketing sales were at 11.4 MMT, up 15.4% YoY (down 2.7% QoQ), in line with estimate. The company reported marketing inventory loss and forex loss of ₹ 384 crore and ₹ 1549.62 crore, respectively
- We expect marketing sales at 46.6 MMT and 48.7 MMT in FY23E and FY24E, respectively
- BPCL achieved crude throughput of 8.8 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 MMT and 40 MMT in FY23E and FY24E, respectively
- Reported GRMs at US\$16.8/bbl were above our estimate of US\$ 5.1/bbl. The company did not disclose refining inventory details. Marketing losses were higher than estimates as per our understanding. Going ahead, we estimate GRM at US\$16/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 (%)		
					FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
BPCL (BHAPET)	309	330	Hold	65,800	42.0	-11.2	55.3	7.4	-27.6	5.6	6.2	29.1	4.7	13.2	-2.2	15.2	17.9	-5.0	21.4
HPCL (HINPET)	204	220	Hold	28,946	44.9	-39.6	47.8	4.5	-5.2	4.3	7.4	-17.4	6.4	7.3	-9.9	8.3	16.5	-17.0	18.3
Indian Oil Corp (INDOIL)	68	75	Hold	96,024	17.1	3.4	14.0	4.0	19.9	4.8	2.2	4.9	2.3	12.9	2.9	10.1	18.4	3.8	14.8

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

Exhibit 2: Variance Analysis

	Q2FY23	Q2FY23E	Q2FY22	YoY (%)	Q1FY23	QoQ (%)	Comments
Total Revenues	128,332.7	113,206.7	101,889.2	26.0	138,389.6	-7.3	The company received a one-time grant of ₹ 5582 crore
Raw materials costs	59,555.2	50,814.3	37,294.3	59.7	63,615.4	-6.4	
Employees Cost	560.7	819.4	795.3	-29.5	624.7	-10.2	
Other Expenses	66,782.8	68,066.0	59,032.4	13.1	80,014.4	-16.5	
Total Expenditure	126,898.7	119,699.7	97,122.0	30.7	144,254.6	-12.0	
EBITDA	1,434.0	-6,493.0	4,767.2	-69.9	-5,865.0	-124.5	While GRMs were above estimates, marketing losses were higher than expected
EBITDA margins (%)	1.1	-5.7	4.7	-356 bps	-4.2	536 bps	
Depreciation	1,556.6	1,299.7	1,388.5	12.1	1,613.1	-3.5	
EBIT	-122.6	-7,792.7	3,378.8	-103.6	-7,478.0	-98.4	
Interest	810.6	536.3	511.6	58.5	615.5	31.7	
Other Income	557.4	635.0	887.6	-37.2	441.7	26.2	
Extra Ordinary Item	0.0	0.0	0.0	NA	0.0	NA	
PBT	-375.8	-7,694.0	3,754.8	-110.0	-7,651.9	-95.1	
Total Tax	-71.6	-1,938.9	914.1	-107.8	-1,396.9	-94.9	
PAT	-304.2	-5,755.1	2,840.7	-110.7	-6,254.9	-95.1	

Key Metrics

Exchange rate (₹/\$)	79.8	79.8	74.1	7.7	77.3	3.3	
Throughput (mmt)	8.8	8.9	7.2	23.2	9.7	-9.0	In line with estimates
Sales (mmt)	11.4	11.1	9.9	15.4	11.8	-2.7	In line with estimates
GRM (\$/barrel)	16.8	5.1	6.0	178.0	27.5	-39.0	Higher than 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	468168.9	4,79,264.1	2.4	424071.6	4,28,627.9	1.1	
EBITDA	611.0	3,660.9	499.2	19514.4	21,486.9	10.1	Revise estimates post Q2FY23 taking into account product cracks and marketing profitability trend
EBITDA Margin (%)	0.1	0.8	63 bps	4.6	5.0	41 bps	
PAT	-4114.2	-2,385.4	-42.0	10628.4	11,774.8	10.8	
EPS (₹)	-19.3	-11.2	-42.0	49.9	55.3	10.8	

Source: ICICI Direct Research

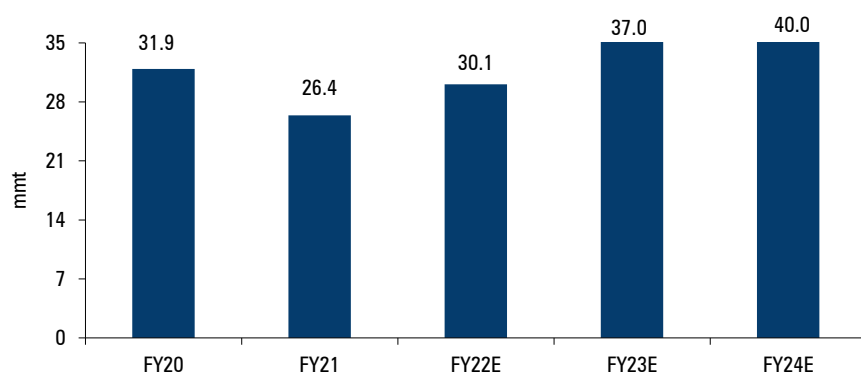
Exhibit 4: Assumptions

	Current				Earlier		Comments
	FY21	FY22	FY23E	FY24E	FY23E	FY24E	
Exchange rate (₹/\$)	74.0	74.6	78.7	79.0	78.7	79.0	
Throughput (mmt)	26.4	30.1	37.0	40.0	37.1	40.0	
Sales (mmt)	38.7	42.5	46.6	48.7	46.3	48.3	
GRM (\$/barrel)	4.1	9.1	16.0	8.0	13.4	8.0	We revise GRM estimates as per current product cracks trend

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

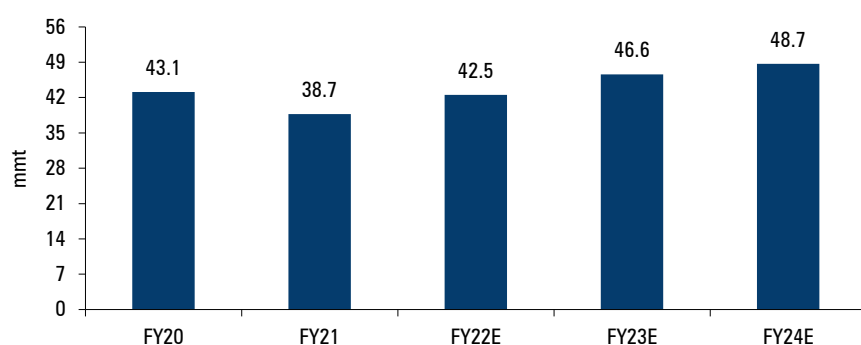
## Story in charts

Exhibit 5: Oil throughput trend



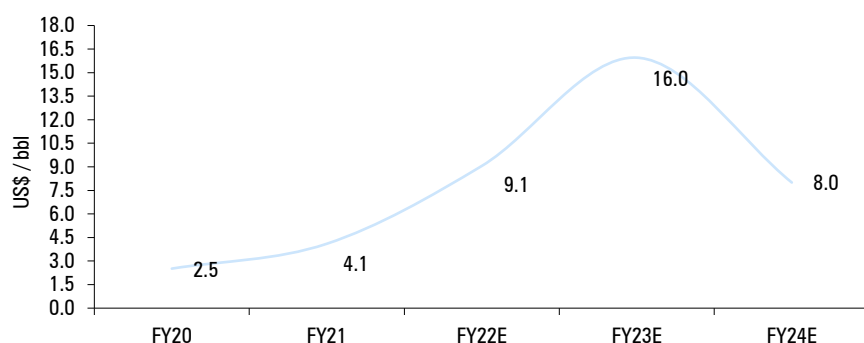
Source: Company, ICICI Direct Research, FY22 numbers are pre-amalgamation

Exhibit 6: Marketing sales volume trend



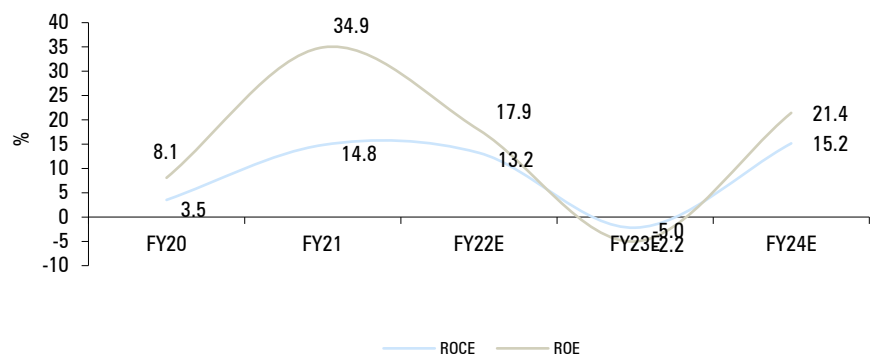
Source: Company, ICICI Direct Research

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>433664.0</b>	<b>479264.1</b>	<b>428627.9</b>
Growth (%)	-7.9	43.7	10.5	-10.6
(Inc.)/(Dec.) in stock in trade	-3633.6	-4464.7	-3011.0	0.0
Raw material Costs	71153.6	145526.0	205556.2	166712.4
Purchase of Products	127800.9	176581.9	183336.0	153357.7
Employee Costs	4477.2	3340.3	3109.0	3311.1
Other Expenditure	84936.3	96198.1	86613.0	83759.8
Op. Expenditure	284734.4	417181.7	475603.2	407141.0
<b>EBITDA</b>	<b>17130.6</b>	<b>16482.3</b>	<b>3660.9</b>	<b>21486.9</b>
Growth (%)	158.0	-3.8	-77.8	486.9
Depreciation	3978.1	4974.6	5769.0	5689.9
EBIT	13152.6	11507.7	-2108.0	15797.0
Interest	1328.4	1978.0	2608.8	2695.3
Other Income	10793.4	2542.4	2269.1	2640.0
PBT	22617.6	12072.1	-2447.7	15741.7
Growth (%)	746.8	-46.6	-120.3	-743.1
Tax	3575.9	3136.8	-62.4	3966.9
<b>Reported PAT</b>	<b>19041.7</b>	<b>8935.4</b>	<b>-2385.4</b>	<b>11774.8</b>
Growth (%)	609.7	-53.1	-126.7	-593.6
<b>EPS</b>	<b>91.0</b>	<b>42.0</b>	<b>-11.2</b>	<b>55.3</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	8,935.4	-2,385.4	11,774.8
Add: Depreciation	3,978.1	4,974.6	5,769.0	5,689.9
Add: Others	-1,495.7	411.2	100.0	100.0
Cash Profit	21,524.0	26,471.1	3,483.6	17,564.7
Increase/(Decrease) in CL	9,144.0	11,284.6	4,709.5	-6,443.4
(Increase)/Decrease in CA	-13,948.3	-12,147.5	-3,520.6	6,676.0
<b>CF from Operating Activiti</b>	<b>16719.7</b>	<b>25608.3</b>	<b>4672.4</b>	<b>17797.4</b>
Purchase of Fixed Assets	8,910.8	6,410.3	8,083.4	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 Activiti</b>	<b>-10536.9</b>	<b>-8963.0</b>	<b>-9083.4</b>	<b>-8763.0</b>
Inc/(Dec) in Loan Funds	-13,658.4	3,095.8	11,500.0	500.0
Less: Dividend Paid	-7,569.6	26,900.9	0.0	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 activiti</b>	<b>755.1</b>	<b>-22,717.7</b>	<b>11,500.0</b>	<b>-3,758.9</b>
Change in cash Eq.	6,937.9	-6,072.4	7,089.1	5,275.4
Op. Cash and cash Eq.	115.8	7,053.7	981.3	8,070.3
<b>Cl. Cash and cash Eq.</b>	<b>7,053.7</b>	<b>981.3</b>	<b>8,070.3</b>	<b>13,345.7</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	47,687.0	45,301.6	52,817.5
Shareholder's Fund	54,544.5	49,816.4	47,431.1	54,946.9
Loan Funds	34,160.3	37,256.2	48,756.2	49,256.2
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>91955.3</b>	<b>101169.9</b>	<b>109285.8</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	39,391.6	34,055.4
Debtor	7,827.5	9,738.3	10,504.4	9,394.6
Cash	7,053.7	981.3	8,070.3	13,345.7
Loan & Advance, Other CA	9872.6	10558.9	10228.9	9998.9
Total Current assets	51510.5	57585.5	68195.2	66794.5
Current Liabilities	43121.9	54207.3	63026.5	52844.5
Provisions	4284.9	4484.1	374.3	4112.9
Total CL and Provisions	47406.8	58691.4	63400.8	56957.4
Net Working Capital	4103.7	-1105.9	4794.3	9837.1
Miscellaneous expense	0.0	0.0	0.0	0.0
<b>Application of Funds</b>	<b>93176.4</b>	<b>91955.3</b>	<b>101169.9</b>	<b>109285.8</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	233.9	222.7	258.0
Cash per share	33.7	4.6	37.9	62.7
EPS	91.0	42.0	-11.2	55.3
Cash EPS	110.0	65.3	15.9	82.0
DPS	79.0	16.0	0.0	20.0
<b>Profitability &amp; Operating Ratios</b>				
EBITDA Margin (%)	5.7	3.8	0.8	5.0
PAT Margin (%)	6.3	2.1	-0.5	2.7
Fixed Asset Turnover (x)	4.2	6.0	6.4	5.6
Inventory Turnover (Days)	32.4	30.6	30.0	29.0
Debtor (Days)	9.5	8.2	8.0	8.0
Current Liabilities (Days)	52.1	45.6	48.0	45.0
<b>Return Ratios (%)</b>				
RoE	34.9	17.9	-5.0	21.4
RoCE	14.8	13.2	-2.2	15.2
RoIC	16.6	13.7	-2.4	17.6
<b>Valuation Ratios (x)</b>				
PE	3.4	7.4	-27.6	5.6
Price to Book Value	1.2	1.3	1.4	1.2
EV/EBITDA	5.4	6.2	29.1	4.7
EV/Sales	0.3	0.2	0.2	0.2
<b>Leverage &amp; Solvency Ratios</b>				
Debt to equity (x)	0.6	0.7	1.0	0.9
Interest Coverage (x)	9.9	5.8	-0.8	5.9
Debt to EBITDA (x)	2.0	2.3	13.3	2.3
Current Ratio	1.1	1.0	1.1	1.2
Quick ratio	0.5	0.4	0.5	0.6

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 (%)		
					FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
BPCL (BHAPET)	309	330	Hold	65,800	42.0	-11.2	55.3	7.4	-27.6	5.6	6.2	29.1	4.7	13.2	-2.2	15.2	17.9	-5.0	21.4
GAIL (India) (GAIL)	88	95	Hold	57,861	23.3	9.9	8.8	3.8	8.9	9.9	3.2	7.1	7.8	18.8	10.3	8.6	18.6	11.1	9.4
Gujarat Gas (GUJGA)	500	480	Hold	34,420	18.9	23.4	20.9	26.4	21.4	23.9	16.4	13.5	14.6	27.0	28.2	21.8	23.1	23.2	17.9
HPCL (HINPET)	204	220	Hold	28,946	44.9	-39.6	47.8	4.5	-5.2	4.3	7.4	-17.4	6.4	7.3	-9.9	8.3	16.5	-17.0	18.3
Indian Oil Corp (INDOIL)	68	75	Hold	96,024	17.1	3.4	14.0	4.0	19.9	4.8	2.2	4.9	2.3	12.9	2.9	10.1	18.4	3.8	14.8
Indraprastha Gas (INDGAS)	381	430	Hold	26,670	18.8	21.7	20.9	20.3	17.6	18.3	13.5	11.5	10.8	22.3	22.5	20.2	19.0	18.8	16.1
Mahanagar Gas (MAHGAS)	845	820	Hold	8,347	60.4	58.9	84.8	14.0	14.3	10.0	8.6	8.6	6.0	19.8	17.7	23.1	16.6	15.0	19.0
ONGC (ONGC)	124	135	Hold	1,59,133	8.9	32.0	37.1	13.9	3.9	3.3	5.4	2.8	2.0	4.5	14.8	20.9	5.5	17.0	17.3
Petronet LNG (PETLNG)	200	210	Hold	30,000	22.3	17.7	19.2	8.9	11.3	10.4	5.5	6.6	5.8	27.0	20.0	20.8	25.0	19.0	19.5
Reliance Industries (RELIND)	2,472	2,700	Hold	16,72,274	89.7	94.5	118.0	27.5	26.2	20.9	18.0	13.6	11.2	7.1	8.7	10.3	7.8	7.6	8.7

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

## RATING RATIONALE

ICICI Direct endeavours to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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## ANALYST CERTIFICATION

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