

Premium to Singapore GRMs continues to expand..

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 constituted 76% of marketing sales in FY23

Q4FY23 Results: BPCL reported higher-than-expected earnings in Q4FY23.

- Revenue was up 8% YoY, flat QoQ to ₹ 133413.8 crore in line with I-direct estimate of ₹ 130263 crore
- GRM was above our estimates at US\$20.58/bbl (I-direct estimate: US\$10/bbl). EBITDA came in at ₹ 11153.7 crore, up 86.3% YoY, 163% QoQ (on a weak base), above I-direct estimate of ₹ 7772.4 crore. There was an exceptional expense of ₹ 1359.96 crore for impairment of investment in its subsidiary Bharat PetroResources (BPRL)
- PAT was at ₹ 6477.7 crore vs. I-direct estimate: ₹ 5489 crore

What should investors do? BPCL's operating profit improved QoQ due to strong refining margins and improvement in marketing margins. In the current quarter, refining margins are likely to be subdued but countered by strong marketing margins. However, we expect refining margins to improve in H2FY24 with a rise in demand. BPCL has also set a capital outlay of ₹ 1.4 lakh crore over the next five years for expanding into petchem, renewable energy and CGD business.

- We revise our rating on the stock from HOLD to **BUY**

Target Price and Valuation: We value BPCL at ₹ 430 i.e. average of P/BV multiple: ₹ 450/share (i.e. ~1x P/BV) and P/E multiple: ₹ 410/share (i.e. ~8x P/E on FY25E EPS).

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 Hindustan Petroleum Corporation (HPCL).

- HPCL is one India's largest public sector refining and marketing companies. It operates more than 21000 retail outlets
- Petrol & diesel together historically contributed more than 60% of total sales
- BUY with a target price of ₹ 310



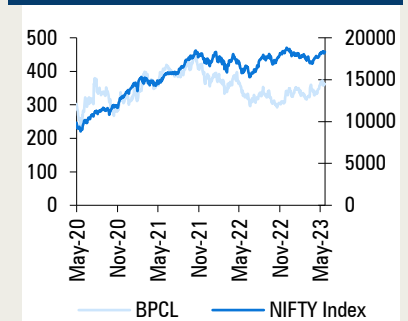
Particulars

Particular	Amount
Market Capitalization (₹ Crore)	78,363.8
Total Debt (FY23) (₹ Crore)	44,775.1
Cash and Investments (FY23) (₹ Crore)	2,120.4
EV (₹ Crore)	1,21,018.5
52 week H/L	375/ 288
Equity capital (₹ Crore)	2,129.5
Face value (₹)	10.0

Shareholding pattern

(in %)	Jun-22	Sep-22	Dec-22	Mar-23
Promoter	53.0	53.0	53.0	53.0
FII	13.2	13.0	12.5	12.6
DII	20.7	20.9	21.8	22.6
Others	13.2	13.2	12.7	11.9

Price Chart



Recent event & key risks

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

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Key Financial Summary

(Year-end March)	FY21	FY22	FY23	5 year CAGR (FY18-23E)	FY24E	FY25E	2 year CAGR (FY23E-25E)
Revenues (₹ crore)	3,01,865.0	4,32,422.5	5,33,467.6	14.0	4,80,569.3	4,60,574.9	(7.1)
EBITDA (₹ crore)	17,130.6	19,026.0	10,956.6	(1.2)	24,939.2	22,525.3	43.4
Net Profit (₹ crore)	19,041.7	11,363.5	1,870.1	(25.1)	13,014.8	11,090.0	143.5
EPS (₹)	91.0	53.4	8.8		61.1	52.1	
P/E (x)	4.0	6.9	41.9		6.0	7.1	
Price / Book (x)	1.4	1.5	1.5		1.3	1.2	
EV/EBITDA (x)	6.1	6.3	11.0		4.7	5.2	
RoCE (%)	14.8	14.5	4.8		17.5	14.0	
RoE (%)	34.9	22.0	3.6		21.7	16.8	

Key takeaways of recent quarter & conference call highlights

Q4FY23 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 reported numbers post amalgamation in Q4FY23
- BPCL's marketing sales were at 12.9 MMT, up 9.2% YoY, flat QoQ, in line with I-direct estimate of 12.8 MMT. The company reported marketing inventory loss and forex loss of ₹ 1913 crore and ₹ 193 crore, respectively
- We expect marketing sales at 51.2 MMT and 51.1 MMT in FY24E and FY25E, respectively
- BPCL achieved crude throughput of 10.63 MMT post amalgamation of BORL. BORL has 7.8 MMTPA refining capacity. Going ahead, on account of increased capacity, we estimate crude throughput of 40 MMT both in FY24E and FY25E
- Reported GRMs at US\$20.58/bbl were above our estimate of US\$10/bbl. The company did not disclose refining inventory details. Marketing margins were in line with estimates, as per our understanding. Going ahead, we estimate GRM at US\$9/bbl and US\$8/bbl in FY24E and FY25E, respectively, taking into account current product cracks trend

BPCL- ESG Disclosure Score

Score	FY20	FY21	FY22
Environmental	45.5	53.4	NA
Social	58.1	53.5	NA
Governance	91.1	74.2	NA
Overall ESG Score	64.9	60.4	NA

Source: Bloomberg, ICICI Direct Research

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)	368	430	Buy	78,364	91.0	53.4	8.8	4.0	6.9	41.9	6.1	6.3	11.0	14.8	14.5	4.8	34.9	22.0	3.6
HPCL (HINPET)	232	275	Buy	32,919	70.6	44.9	-66.7	3.3	5.2	-3.5	4.8	7.8	-12.8	15.6	7.3	-12.9	29.5	16.5	-32.4
Indian Oil Corp (INDOIL)	205	105	Buy	1,21,190	15.5	17.1	6.0	13.2	12.0	34.2	3.3	2.9	5.4	13.3	12.9	3.8	19.8	18.4	6.1

Source: Company, ICICI Direct Research

Exhibit 2: Variance Analysis

	Q4FY23	Q3FY23E	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	Comments
Total Revenues	133,413.8	130,262.9	123,382.0	8.1	133,331.5	0.1	In line with estimates
Raw materials costs	55,118.2	52,718.8	53,905.3	2.2	56,016.7	-1.6	
Employees Cost	838.9	822.6	940.2	-10.8	739.6	13.4	
Other Expenses	66,303.0	68,949.1	62,550.3	6.0	72,341.3	-8.3	
Total Expenditure	122,260.1	122,490.5	117,395.7	4.1	129,097.6	-5.3	
EBITDA	11,153.7	7,772.4	5,986.3	86.3	4,233.9	163.4	Refining margins were higher than expected but marketing margins were in line with estimates
EBITDA margins (%)	8.4	6.0	4.9	351 bps	3.2	518 bps	
Depreciation	1,595.8	86.5	1,494.2	6.8	1,582.0	0.9	
EBIT	9,557.9	7,685.9	4,492.1	112.8	2,651.9	260.4	
Interest	812.4	982.5	645.8	25.8	978.0	-16.9	
Other Income	733.0	635.0	586.2	25.0	451.9	62.2	
Extra Ordinary Item	0.0	0.0	0.0	NA	0.0	NA	
PBT	8,118.5	7,338.4	4,432.5	83.2	2,125.8	281.9	
Total Tax	1,640.8	1,849.3	1,931.4	-15.0	166.3	886.9	
PAT	6,477.7	5,489.1	2,501.1	159.0	1,959.6	230.6	

Key Metrics

Exchange rate (₹/\$)	82.3	82.3	75.2	9.4	82.2	0.1	
Throughput (mmt)	10.6	9.8	10.2	4.7	9.4	13.2	Higher than estimates
Sales (mmt)	12.9	12.8	11.8	9.2	12.8	0.8	In line with estimates
GRM (\$/barrel)	20.6	10.0	16.4	25.7	15.9	29.3	Higher than estimates

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

(₹ Crore)	FY24E			FY25E			Comments
	Old	New	Change	Old	New	Change	
Revenue	481133.9	4,80,569.3	-0.1	458851.0	4,60,574.9	0.4	
EBITDA	27321.3	24,939.2	-8.7	22508.1	22,525.3	0.1	Revise estimates post Q4FY23 taking into account product cracks and marketing profitability trend
EBITDA Margin (%)	5.7	5.2	-49 bps	4.9	4.9	-1 bps	
PAT	19806.4	13,014.8	-34.3	16401.7	11,090.0	-32.4	
EPS (₹)	93.0	61.1	-34.3	77.0	52.1	-32.4	

Source: ICICI Direct Research

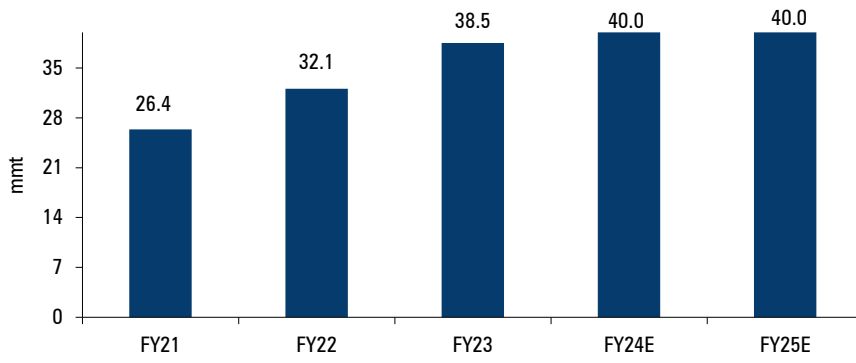
Exhibit 4: Assumptions

	Current				Earlier		Comments
	FY22	FY23E	FY24E	FY25E	FY24E	FY25E	
Exchange rate (₹/\$)	74.6	80.3	82.2	82.2	82.2	82.2	
Throughput (mmt)	32.1	38.5	40.0	40.0	40.0	40.0	
Sales (mmt)	42.5	48.9	51.2	51.1	51.1	51.0	
GRM (\$/barrel)	9.8	20.3	9.0	8.0	10.0	8.0	We revise GRM estimates as per current product cracks trend

Source: ICICI Direct Research

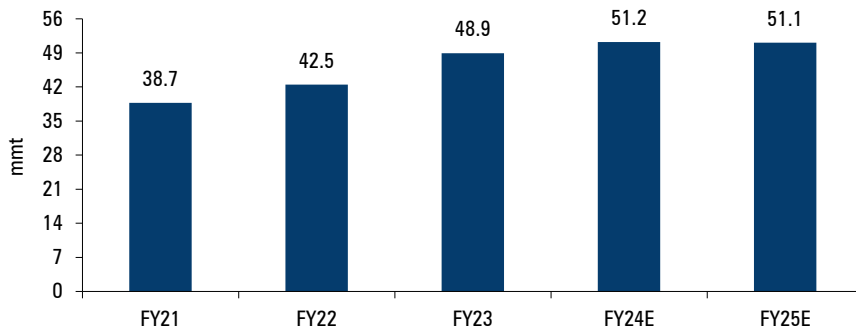
Story in charts

Exhibit 5: Oil throughput trend



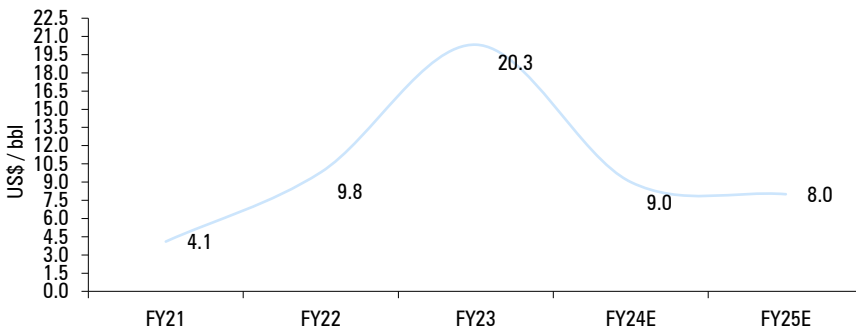
Source: Company, ICICI Direct Research

Exhibit 6: Marketing sales volume trend



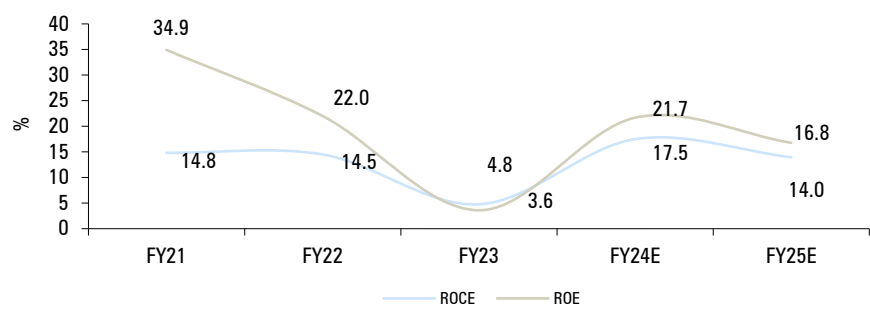
Source: Company, ICICI Direct Research

Exhibit 7: Refining margin trend



Source: Company, ICICI Direct Research

Exhibit 8: Return ratios trend



Source: Company, ICICI Direct Research

Financial Summary

Exhibit 9: Standalone Profit and loss statement					₹ crore
(Year-end March)	FY22	FY23	FY24E	FY25E	
Revenue	432422.5	533467.6	480569.3	460574.9	
Growth (%)	43.3	23.4	-9.9	-4.2	
(Inc.)/(Dec.) in stock in trade	-3988.8	-975.2	0.0	0.0	
Raw material Costs	163541.2	234305.4	187722.8	178217.8	
Purchase of Products	143901.7	199884.1	177128.4	167891.0	
Employee Costs	3397.9	2764.0	3019.2	3193.1	
Other Expenditure	106544.5	86532.6	87759.8	88747.8	
Op. Expenditure	413396.5	522510.9	455630.1	438049.6	
EBITDA	19026.0	10956.6	24939.2	22525.3	
Growth (%)	11.1	-42.4	127.6	-9.7	
Depreciation	5417.9	6347.5	6948.3	7608.3	
EBIT	13608.1	4609.2	17990.9	14917.0	
Interest	2208.7	3216.5	2994.3	2854.3	
Other Income	4272.4	824.0	2402.8	2763.4	
PBT	15671.9	2216.7	17399.5	14826.2	
Growth (%)	-30.7	-85.9	684.9	-14.8	
Tax	4308.4	346.6	4384.7	3736.2	
Reported PAT	11363.5	1870.1	13014.8	11090.0	
Growth (%)	-40.3	-83.5	595.9	-14.8	
EPS	53.4	8.8	61.1	52.1	

Source: Company, ICICI Direct Research

Exhibit 10: Standalone Cash flow statement					₹ crore
(Year-end March)	FY22	FY23	FY24E	FY25E	
Profit after Tax	7,370.3	871.8	8,023.4	6,098.6	
Add: Depreciation	5,417.9	6,347.5	6,948.3	7,608.3	
Add: Dividend Paid	3993.1	998.3	4991.4	4991.4	
Add: Others	1,394.5	1,202.3	200.0	200.0	
Cash Profit	34,319.0	10,418.1	25,154.5	23,889.7	
Increase/(Decrease) in CL	17,050.9	-7,493.5	-3,560.9	-2,351.1	
(Increase)/Decrease in CA	-16,841.3	8,756.5	4,727.7	1,906.2	
CF from Operating Activiti	51707.6	12514.1	26321.3	23444.9	
Purchase of Fixed Assets	7,365.6	7,334.3	13,067.3	12,624.1	
(Inc)/Dec in Investments	5,052.1	-1,240.4	-500.0	-500.0	
Others	0.0	-3,312.4	0.0	0.0	
CF from Investing Activiti	-34959.6	-11887.0	-13567.3	-13124.1	
Inc/(Dec) in Loan Funds	8,054.9	2,559.9	-2,000.0	-2,000.0	
Less: Dividend Paid	16,143.1	998.3	4,991.4	4,991.4	
Inc/(Dec) in Sh. Cap. & Res.	-10,269.4	-520.9	0.0	0.0	
Others	0.0	0.0	0.0	0.0	
CF from financing activiti	-22,350.7	42.4	-11,982.9	-11,982.9	
Change in cash Eq.	-5,602.7	669.5	771.1	-1,662.0	
Op. Cash and cash Eq.	7,053.7	1,450.9	2,120.4	2,891.5	
Cl. Cash and cash Eq.	1,451.0	2,120.4	2,891.5	1,229.5	

Source: Company, ICICI Direct Research

Exhibit 11: Standalone Balance Sheet					₹ crore
(Year-end March)	FY22	FY23	FY24E	FY25E	
Source of Funds					
Equity Capital	2,129.5	2,129.5	2,129.5	2,129.5	
Preference capital	0.0	0.0	0.0	0.0	
Reserves & Surplus	49,516.0	49,866.9	57,890.3	63,988.8	
Shareholder's Fund	51,645.5	51,996.3	60,019.7	66,118.3	
Loan Funds	42,215.3	44,775.1	42,775.1	40,775.1	
Deferred Tax Liability	5,866.0	7,068.3	7,268.3	7,468.3	
Minority Interest	0.0	0.0	0.0	0.0	
Source of Funds	99726.8	103839.8	110063.2	114361.7	
Application of Funds					
Gross Block	1,04,694.9	1,13,832.2	1,26,332.2	1,38,332.2	
Less: Acc. Depreciation	22,092.5	28,440.0	35,388.3	42,996.5	
Net Block	82,602.4	85,392.3	90,944.0	95,335.7	
Capital WIP	4,997.2	5,673.4	6,240.7	6,864.8	
Total Fixed Assets	87,599.6	91,065.6	97,184.7	1,02,200.5	
Investments	12,632.0	13,872.4	14,372.4	14,872.4	
Inventories	42,176.5	38,064.7	34,232.3	32,808.1	
Debtor	9,699.6	6,721.9	6,056.5	5,804.5	
Cash	1,450.9	2,120.4	2,891.5	1,229.5	
Loan & Advance, Other CA	9422.0	7755.0	7525.0	7295.0	
Total Current assets	62748.9	54662.0	50705.4	47137.1	
Current Liabilities	61413.0	54103.0	48715.2	46688.4	
Provisions	3044.7	2861.2	4688.0	4363.8	
Total CL and Provisions	64457.7	56964.2	53403.3	51052.2	
Net Working Capital	-1708.7	-2302.2	-2697.9	-3915.1	
Miscellaneous expense	0.0	0.0	0.0	0.0	
Application of Funds	99726.8	103839.8	110063.1	114361.7	

Source: Company, ICICI Direct Research

Exhibit 12: Key ratios				
(Year-end March)	FY22	FY23	FY24E	FY25E
Per share data (₹)				
Book Value	242.5	244.2	281.9	310.5
Cash per share	6.8	10.0	13.6	5.8
EPS	53.4	8.8	61.1	52.1
Cash EPS	78.8	38.6	93.7	87.8
DPS	16.0	4.0	20.0	20.0
Profitability & Operating Ratios				
EBITDA Margin (%)	4.4	2.1	5.2	4.9
PAT Margin (%)	2.6	0.4	2.7	2.4
Fixed Asset Turnover (x)	4.9	5.8	4.9	4.5
Inventory Turnover (Days)	35.6	26.0	26.0	26.0
Debtor (Days)	8.2	4.6	4.6	4.6
Current Liabilities (Days)	51.8	37.0	37.0	37.0
Return Ratios (%)				
RoE	22.0	3.6	21.7	16.8
RoCE	14.5	4.8	17.5	14.0
RoIC	15.1	5.0	18.2	14.2
Valuation Ratios (x)				
PE	6.9	41.9	6.0	7.1
Price to Book Value	1.5	1.5	1.3	1.2
EV/EBITDA	6.3	11.0	4.7	5.2
EV/Sales	0.3	0.2	0.2	0.3
Leverage & Solvency Ratios				
Debt to equity (x)	0.8	0.9	0.7	0.6
Interest Coverage (x)	6.2	1.4	6.0	5.2
Debt to EBITDA (x)	2.2	4.1	1.7	1.8
Current Ratio	1.0	1.0	0.9	0.9
Quick ratio	0.3	0.3	0.3	0.3

Source: Company, ICICI Direct Research

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)	368	430	Buy	78,364	91.0	53.4	8.8	4.0	6.9	41.9	6.1	6.3	11.0	14.8	14.5	4.8	34.9	22.0	3.6
GAIL (India) (GAIL)	107	125	Buy	70,354	11.0	23.3	8.1	9.7	4.6	13.3	8.0	3.8	12.8	8.7	18.8	5.9	10.5	18.6	9.5
Gujarat Gas (GUJGA)	485	570	Buy	33,387	0.0	0.0	0.0	31.9	27.3	27.3	0.0	0.0	0.0	76.3	51.1	60.5	28.7	20.6	22.2
HPCL (HINPET)	232	275	Buy	32,919	70.6	44.9	-66.7	3.3	5.2	-3.5	4.8	7.8	-12.8	15.6	7.3	-12.9	29.5	16.5	-32.4
Indian Oil Corp (INDOIL)	205	105	Buy	1,21,190	15.5	17.1	6.0	13.2	12.0	34.2	3.3	2.9	5.4	13.3	12.9	3.8	19.8	18.4	6.1
Indraprastha Gas (INDGAS)	488	590	Buy	34,160	14.4	18.8	20.8	34.0	26.0	23.5	22.3	17.5	15.5	20.0	22.3	23.5	17.1	19.0	20.5
Mahanagar Gas (MAHGAS)	1077	1,300	Buy	10,638	327.2	364.2	418.5	44.8	35.6	34.3	17.2	17.8	13.5	0.0	0.0	0.0	172.4	123.8	81.5
ONGC (ONGC)	152	180	Buy	1,95,067	10.4	8.9	32.0	14.6	17.0	4.7	4.2	6.5	3.4	10.2	4.5	14.8	6.7	5.5	17.0
Petronet LNG (PETLNG)	227	240	Hold	34,050	19.7	22.3	21.6	11.5	10.2	10.5	7.0	6.3	6.5	26.0	27.0	22.7	25.3	25.0	21.7
Reliance Industries (RELIND)	2,349	2,850	Buy	15,89,099	89.7	89.7	98.6	30.8	26.2	23.8	22.2	17.0	12.8	5.5	7.3	9.0	7.0	7.8	8.1

Source: Bloomberg, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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