

Estimate change	↔
TP change	↓
Rating change	↔

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Bloomberg	BPCL IN
Equity Shares (m)	1,967
M.Cap.(INRb)/(USD\$b)	775 / 10
52-Week Range (INR)	550 / 252
1, 6, 12 Rel. Per (%)	-4/-12/3
12M Avg Val (INR M)	3604

Financials & Valuations (INR b)

Y/E March	2020	2021E	2022E
Sales	2,846	2,050	2,518
EBITDA	100	146	174
PAT	50	66	86
EPS (INR)	25.3	33.6	43.5
EPS Gr.%	-41.6	32.6	29.5
BV/Sh.INR	185.7	208.2	236.1
Ratios			
Net D:E	1.5	1.4	1.2
RoE (%)	13.2	17.1	19.6
RoCE (%)	8.8	7.5	8.7
Payout (%)	103.6	33.1	36.0
Valuation			
P/E (x)	14.1	10.6	8.2
P/BV (x)	1.9	1.7	1.5
EV/EBITDA (x)	7.0	4.8	4.0
Div yield (%)	4.6	2.7	3.8
FCF yield (%)	-19.5	-2.8	10.3

Shareholding pattern (%)

As On	Mar-20	Dec-19	Mar-19
Promoter	53.0	53.0	53.3
DII	20.5	19.3	16.2
FII	12.3	14.1	15.6
Others	14.3	13.6	14.9
FII Includes depository receipts			

CMP: INR357
TP: INR425(+19%)
Neutral

Better-than-expected GRMs lead to a beat

- BPCL posted an EBITDA beat in 4QFY20 on better-than-expected reported GRM counterpoised with marginally weaker marketing margins.
- However, refining throughput (+2% YoY) and marketing sales (-5% YoY) were in line with our estimates. The company has confirmed that throughput ramped up to 83% after a dip to ~63% in Apr'20 for all group refineries. Sales demand has also revived and is now 30% lower YoY (up from being ~55% lower in Apr'20).
- Due to slim possibility of a divestment in these circumstances, we maintain a Neutral stance on BPCL. Also, we do not see much upside despite the expected divestment.

COVID-19 led exceptional item recorded

- Reported EBITDA came in higher than est. at INR5.9b (-87% YoY) owing to better-than-expected refining margin.
- Inventory loss for the quarter stood at INR49b (refining at INR29.6b and marketing at INR19.4b). Adj. for the same, EBITDA came in at INR54.9b.
- On account of the COVID-19 impact, the company has recorded exceptional item of INR10.8b (refining ~INR4b and rest is marketing), in light of the revaluation of certain finished goods inventory and raw materials.
- The company reported forex loss of INR12.1b, with reported PAT-level loss of INR13.6b (v/s gains of INR31.2b in 4QFY20). The company has reversed tax provisions of INR1.9b from earlier years.
- Adj. PAT (for the exceptional item of INR10.8b) came in at a loss of INR6.5b (v/s est. loss of INR9.6b).

Key operational performance

- Refining throughput was in line at 8.4mmt (+2% YoY). BPCL reported better-than-estimated GRM at USD0.75/bbl (v/s USD2.7 in 4QFY19); core GRM stood at USD7.45/bbl (v/s USD2.55 in 4QFY19 and v/s est. USD2/bbl).
- Marketing sales were in line at 10.7mmt (-5% YoY), with margin incl. inventory lower than est. at INR4.4/liter (v/s est. INR5.3; INR6.5 in 4QFY19).
- BPCL's GRM benefited from the discount on crude in the latter part of the quarter and in lieu of some adjustments in marketing gain/loss.

FY20 highlights

- Standalone EBITDA stood at INR83b (-34% YoY) and adj. PAT at INR37.7b (-47% YoY). BPCL has not exercised the new lower tax rate option due to the availability of unutilized (~INR70b) MAT credit.
- Total refinery throughput was up 3% YoY to 31.9mmt, while marketing sales were flat YoY at 43.1mmt. Full-year average reported GRM stood at USD2.5/bbl (v/s USD4.6 in FY19); blended marketing margins were up 4% YoY to INR5.0/liter.
- Consol. EBITDA was lower 37% YoY at INR100b (-37% YoY) and adj. PAT was lower 42% YoY at INR50b.

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Key highlights from management commentary

- Standalone capex stood at INR47.8b for the quarter and at INR110.6b for full-year FY20. The company has revised down FY21 capex to INR80-85b from INR120b, owing to impact from COVID-19 led lockdown.
- Consol. debt increased due to INR60b of lease accounting, another INR59b was on account of working capital related to the liquidity crunch faced by dealers/consumers in marketing. Impairment of INR6b in BPRL was taken.
- Outstanding receivable from the government at end-FY20 stood at ~INR48b, down from INR88b in end-FY19. The government has been making regular payments to the company for the recent (three) free LPG scheme announced under the 'Atmanirbhar Bharat' announcement.
- Currently, valuation of NRL is on and is aimed to be done with the BPCL divestment concurrently.

Valuation and view

- Refining margins are expected to remain weak for a few more months in light of poor global demand growth. Also, the huge discounts enjoyed by the company in the Mar-May'20 (~USD5-7/bbl) have been eroded; Jun'20 crude prices are now at a premium (~USD2/bbl).
- OMCs have not taken any price hikes in retail selling prices and gross margins now hover at just ~INR2/liter. However, the company has reiterated that in the long term, marketing margins usually normalize. In FY20, diesel marketing margin was similar to that in FY19, while petrol marketing margin was marginally lower.
- In lieu of the poor refining margin environment, we value BPCL at 1.8x FY22E PBV, at a 15% discount to the average over FY15-18 when there was true deregulation of auto fuels without pricing intervention from the government. Reiterate Neutral with a target price of INR425.

Standalone - Quarterly Earning Model

Y/E March	(INR Billion)											
	FY19				FY20				FY19	FY20	FY20	Var. vs
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		4QE	Est.	
Net Sales	717.0	722.9	791.7	739.9	763.2	643.4	747.3	689.9	2,971.5	2,843.8	601.2	15%
YoY Change (%)	25.5	35.6	30.6	13.4	6.4	-11.0	-5.6	-6.8	25.7	-4.3	-18.7	
EBITDA	45.8	33.5	0.8	45.3	21.5	27.6	28.0	5.9	125.4	83.0	3.3	78%
Margins (%)	6.4	4.6	0.1	6.1	2.8	4.3	3.7	0.9	4.2	2.9	0.6	
EBITDA adj. for inventory and one-offs	19.0	19.1	34.1	41.7	26.0	27.9	22.6	54.9	114.0	131.4	38.2	44%
Forex loss	7.1	9.3	-6.6	-2.8	-0.3	3.9	1.0	12.1	7.0	16.6	7.8	
Depreciation	7.4	7.6	7.8	9.1	9.1	9.5	9.7	9.5	31.9	37.9	10.7	-11%
Interest	3.0	3.3	3.4	3.5	4.5	6.4	5.1	5.8	13.2	21.8	5.4	7%
Other Income	5.5	5.4	9.7	10.6	5.4	8.7	5.1	11.6	31.1	30.8	6.2	87%
PBT before EO expense	33.8	18.7	5.9	46.0	13.5	16.6	17.3	-9.9	104.4	37.5	-14.4	NM
Extra-Ord expense	0.0	0.0	0.0	0.0	0.0	0.0	0.0	10.8	0.0	10.8	0.0	
PBT	33.8	18.7	5.9	46.0	13.5	16.6	17.3	-20.7	104.4	26.7	-14.4	NM
Tax	10.9	6.5	0.9	14.7	2.8	-0.5	4.7	-7.1	33.1	-0.1	-4.8	NM
Reported PAT	22.9	12.2	5.0	31.2	10.8	17.1	12.6	-13.6	71.3	26.8	-9.6	NM
Adj PAT	22.9	12.2	5.0	31.2	10.8	17.1	12.6	-6.5	71.3	37.7	-9.6	NM
YoY Change (%)	208.0	-48.3	-76.9	16.9	-53.1	40.2	154.6	-120.8	-9.9	-47.2	-130.7	
Margins (%)	3.2	1.7	0.6	4.2	1.4	2.7	1.7	-0.9	2.4	1.3	-1.6	
Key Assumptions												
Refining throughput (mmt)	7.7	7.6	7.5	8.2	7.5	7.7	8.4	8.4	31.1	31.9	8.6	-2%
Reported GRM (USD/bbl)	7.5	5.6	2.8	2.7	2.8	3.4	3.2	0.8	4.6	2.5	-4.5	NM
Core GRM (USD/bbl)	4.2	3.3	6.0	2.6	3.7	3.8	2.2	7.4	4.0	4.3	2.0	NM
Marketing sales volume excld exports (mmt)	11.0	10.1	10.7	11.4	11.1	10.3	11.0	10.7	43.1	43.1	11.1	-4%
Marketing GM incld inv (INR/litre)	4.9	4.9	2.9	6.5	4.4	5.0	4.8	4.4	4.8	5.0	5.3	-17%

E: MOFSL Estimates

Recent development in LPG augurs well for OMCs

- In the current benign crude price environment (our est. USD40/50/bbl for FY21/FY22E), we expect to see structural changes in the pricing of LPG and kerosene, which may bid farewell to all under-recoveries in the petroleum sector. [Recent news article](#) suggests that the subsidy on LPG cylinder declined to zero in May'20.
- Raising prices or reducing subsidies on LPG cylinder augurs well for the OMCs, especially keeping in mind the intended privatization of BPCL. However, the resolve of the government would be tested if oil prices spike. Also, effective 1st Jun'20, the prices of non-subsidized LPG cylinder were also increased ([article](#)).

GRM and marketing margin outlook

- While GRMs are expected to be poor in the short term, hike in excise duty on Petrol and Diesel have resulted in normalization of marketing margins.
- Due to the recent rally/recovery in crude prices, gross marketing margins have shrank to <INR2/liter as the OMCs have not taken any prices hike (other than that to pass on the increase in VAT).
- However, such low marketing margins are irrational (such as were the high marketing margins of INR15-17/liter in Apr'20) and would definitely normalize again to a sustainable level for the full year. We have built in gross marketing margin of INR3.3/liter (unchanged) with net margin at INR1.5/liter for FY21/22E.
- Our calculation suggests that BPCL requires INR0.4/liter of incremental gross marketing margin on auto fuels for the full year to offset the decrease of USD1/bbl in GRM.

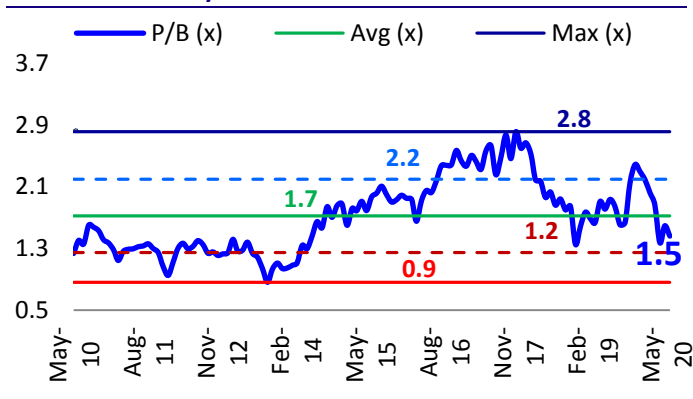
Estimates unchanged

- The company has highlighted that refining throughput ramped up after a dip in Apr'20 (~63%) to 83% for all group refineries (ramp-up was subject to further opening up of the lockdown). Product sales demand has also revived and is now lower 30% YoY (up from being lower ~55% in Apr'20).
- Our model was already in line with the aforementioned developments and we have built in FY21 refining throughput ~14% lower YoY at 27.5mmt (100% utilization v/s 116% in FY20) and marketing sales volumes at 5% lower YoY at 41mmt (v/s average 5% YoY volumes gain that we assume).
- Normalization of irrational GRM and marketing margin would tend to occur in the long term, and thus, we have built in GRM of USD5/6/bbl and marketing margin of INR4.2/INR4.1/liter for FY21/22E, respectively.

Valuation and view

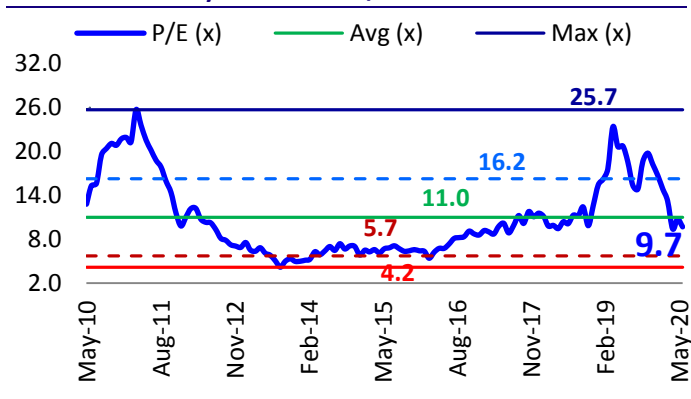
- BPCL is trading at 1.7x of INR208 FY21 PBV and 10.6x FY21 EPS of INR33.6.
- We value BPCL at 1.8x (15% discount to FY15-18 average when markets did not see any interference from government) FY22E PBV to arrive at a TP of INR425/share. We maintain Neutral on the stock with slim possibility of divestment in these circumstances.
- Challenges remain on BPCL's divestment to a private party, namely (a) guarantee of non-interference in pricing of auto fuels even if oil surges, (b) complexities involved in dealing with subsidiaries and JVs, and (c) high employee cost.

Exhibit 1: BPCL 1-year forward PBV chart



Source: Company, MOFSL

Exhibit 2: BCPL 1-year forward P/E chart



Source: Company, MOFSL

Exhibit 3: BPCL – key assumptions

Y End: March 31	2015	2016	2017	2018	2019	2020	2021E	2022E
Exchange Rate (INR/USD)	61	65	67	64	70	71	73	73
Crude cost (USD/bbl)	86	48	49	57	70	61	40	50
Domestic Market Sales (MMT)	34	37	38	41	43	43	41	46
YoY (%)	1%	6%	3%	9%	5%	0%	-5%	13%
Reported GRM (USD/bbl)	3.6	6.6	5.3	6.9	4.6	2.5	5.0	6.0
Singapore GRM (USD/bbl)	6.4	7.5	5.8	7.3	4.9	3.8	5.0	6.0
Prem/(disc) (USD/bbl)	(3)	(1)	(1)	(0)	(0)	(1)	0	0
Refining capacity (mmt)	21.5	21.5	24.5	27.5	27.5	27.5	27.5	27.5
YoY (%)	0%	0%	14%	12%	0%	0%	0%	0%
Refining capacity utilization (%)	109%	112%	104%	104%	113%	116%	100%	109%
Refinery throughput (MMT)	23.4	24.1	25.4	28.5	31.1	31.9	27.5	30.0
YoY (%)	0%	3%	5%	12%	9%	3%	-14%	9%
Marketing Margin (INR/ltr)								
Blended gross marketing margin incld inventory	4.4	4.0	4.2	4.0	4.8	4.7	4.2	4.1
Cons EPS	24.4	41.1	48.3	49.8	43.4	25.3	33.6	43.5

Source: Company, MOSFL

Management commentary highlights:

Refining

- Distillate yields were better at 83.88% in 4QFY20, up from 81.64% YoY.
- Crude sourcing stands at ~23% from Saudi Arabia, ~17% Iraq and ~14-15% from Abu Dhabi.
- Awaiting technical persons from overseas for PDPP commissioning.
- Have passed on some proportion of BS-VI related project/operating cost to consumers.

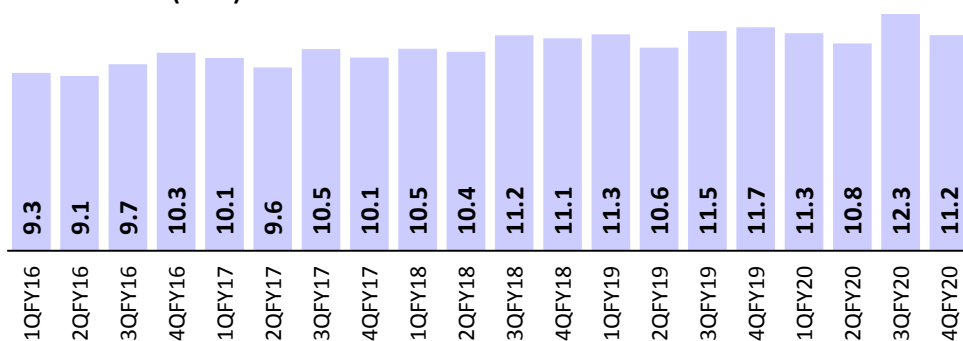
Marketing

- Market share among OMCs stood at 28.71% for petrol v/s 28.64% last year.
- Market share among OMCs stood at 28.95% for HSD v/s 29.02% last year.
- Over a longer period, marketing margins should remain normal. In FY20, diesel marketing margins were similar to that in FY19, petrol marketing margin was marginally lower.

Key charts from the quarter

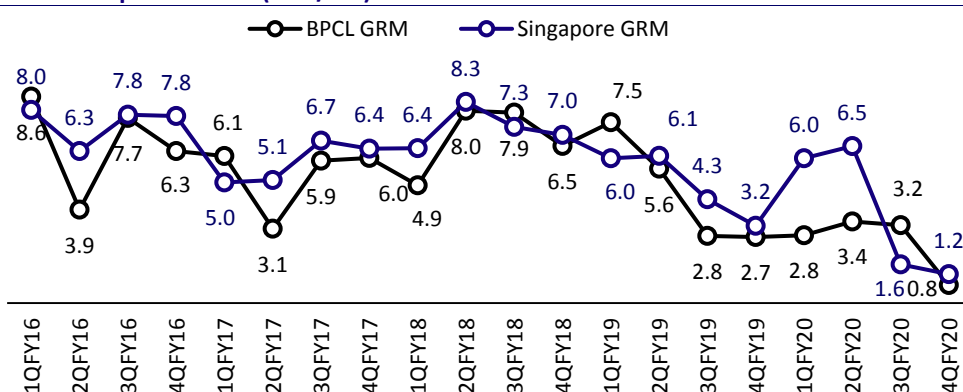
Exhibit 4: Product sales (mmt)

Product Sales (mmt)



Source: Company, MOSFL

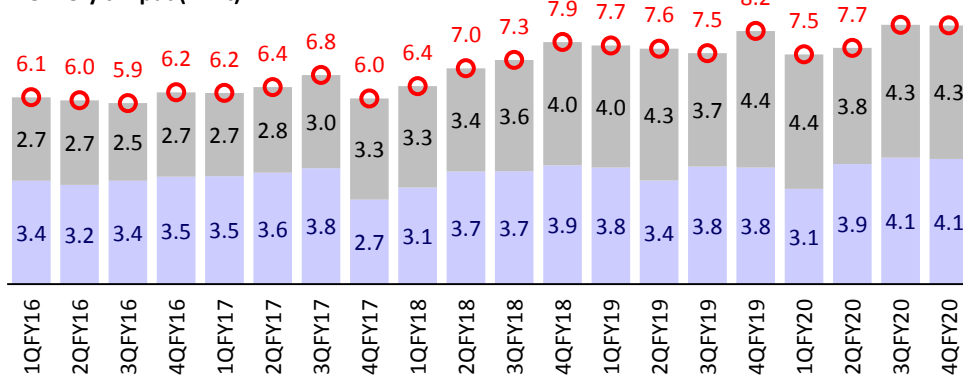
Exhibit 5: Reported GRM (USD/bbl)



Source: Company, MOSFL

Exhibit 6: Refining throughput (mmt)

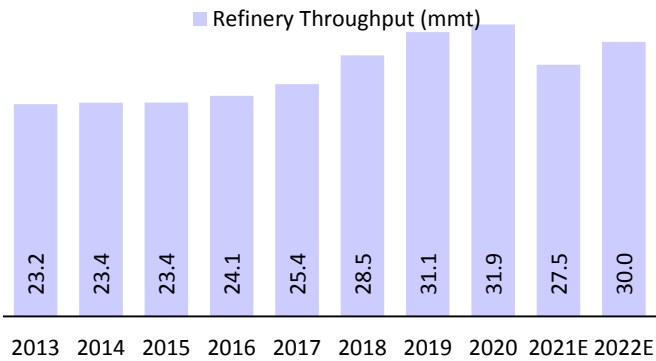
Refinery thr'put (mmt)



Source: Company, MOSFL

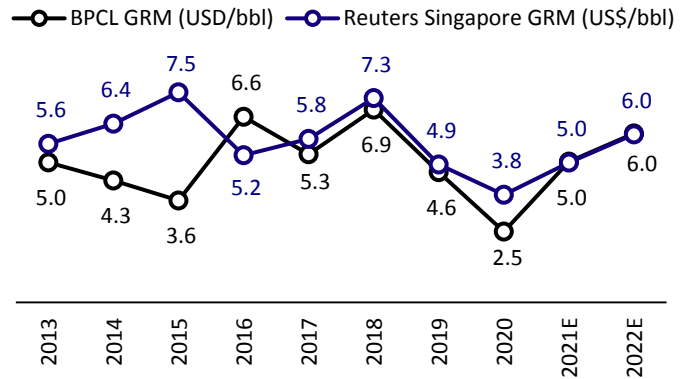
Story in charts

Exhibit 7: Throughput of BPCL (mmt)



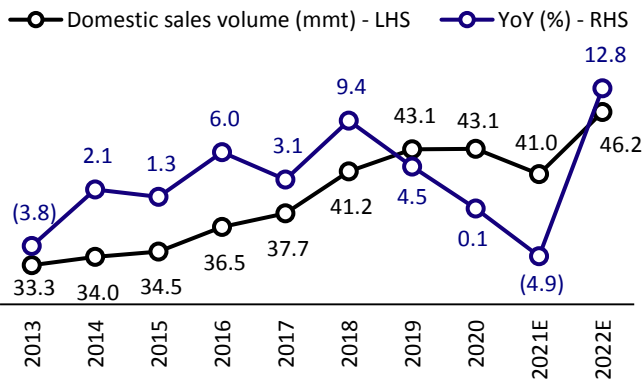
Source: Company, MOFSL

Exhibit 8: GRM trend of BPCL



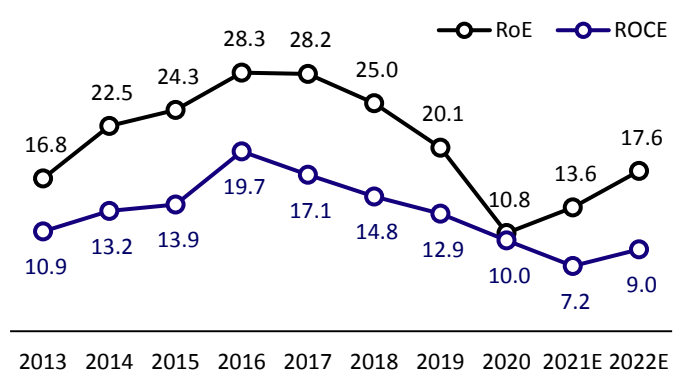
Source: Company, MOFSL

Exhibit 9: Domestic marketing sales volume



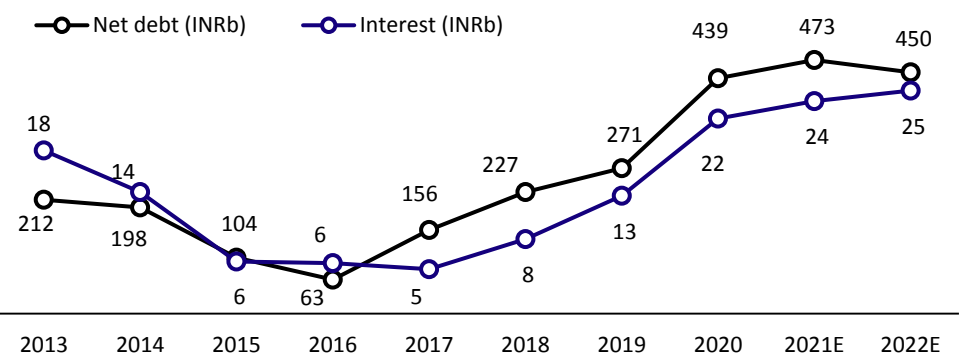
Source: Company, MOFSL

Exhibit 10: Standalone return ratios (%)



Source: Company, MOFSL

Exhibit 11: Standalone Debt/interest



Source: Company, MOFSL

Financials and Valuations (consol)

Consolidated - Income Statement								(INR billion)
Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Total Income from Operations	2,426	1,878	2,013	2,358	2,982	2,846	2,050	2,518
EBITDA	105	129	138	152	158	100	146	174
Margin (%)	4.3	6.9	6.8	6.4	5.3	3.5	7.1	6.9
Depreciation	30	21	21	29	34	41	45	49
EBIT	74	109	116	123	124	59	101	125
Net forex loss	4	0	0	0	7	17	0	0
Int. and Finance Charges	12	7	7	12	18	26	27	28
Other Income	19	16	18	18	20	19	15	18
PBT bef. EO Exp.	77	118	128	129	120	36	89	115
EO Items	0	0	0	0	0	-13	0	0
PBT after EO Exp.	77	118	128	129	120	23	89	115
Total Tax	26	40	42	44	44	0	30	38
Tax Rate (%)	33.9	34.3	32.9	34.0	36.6	-0.6	33.3	33.3
Minority Interest/Share of JVs/associates	-3	4	9	13	9	14	7	9
Reported PAT	48	81	95	98	85	37	66	86
Adjusted PAT	48	81	95	98	85	50	66	86
Change (%)	22.9	68.3	17.5	3.0	-12.9	-41.6	32.6	29.5
Margin (%)	2.0	4.3	4.7	4.2	2.9	1.8	3.2	3.4

Consolidated - Balance Sheet								(INR Million)
Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Equity Share Capital	7	7	13	20	20	20	20	20
Total Reserves	218	271	295	347	368	346	390	445
Net Worth	225	278	308	366	388	365	410	464
Minority Interest	13	17	20	19	21	21	21	21
Total Loans	210	211	315	370	429	616	678	644
Deferred Tax Liabilities	13	31	41	55	68	62	62	62
Capital Employed	462	537	683	810	905	1,064	1,170	1,191
Gross Block	545	566	788	962	1,039	1,223	1,283	1,343
Less: Accum. Deprn.	254	276	302	331	365	406	466	519
Net Fixed Assets	291	289	486	631	674	817	817	824
Goodwill on Consolidation	0	0	0	0	0	0	0	0
Capital WIP	158	175	168	99	137	178	233	277
Total Investments	77	58	64	61	68	55	55	55
Curr. Assets, Loans&Adv.	337	342	372	412	491	459	383	420
Inventory	174	146	212	225	229	222	147	175
Account Receivables	29	22	48	52	69	54	33	34
Cash and Bank Balance	34	42	19	14	7	12	32	40
Loans and Advances	99	131	94	121	186	171	171	171
Curr. Liability & Prov.	401	328	408	393	464	445	318	385
Account Payables	345	302	382	216	430	408	280	345
Provisions	56	26	26	178	33	36	38	40
Net Current Assets	-64	14	-35	19	27	14	65	34
Appl. of Funds	462	537	683	810	905	1,064	1,170	1,191

E: MOFSL Estimates

Financials and Valuations

Ratios

Y/E March (INR)	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
EPS	24.4	41.1	48.3	49.8	43.4	25.3	33.6	43.5
Cash EPS	39.8	51.7	59.1	64.5	60.7	46.1	56.3	68.2
BV/Share	114.6	141.3	156.7	186.2	197.1	185.7	208.2	236.1
DPS	8.3	11.4	21.7	21.0	19.0	16.5	9.5	13.4
Payout (%)	40.0	32.5	52.4	49.4	51.3	103.6	33.1	36.0
Valuation (x)								
P/E	14.6	8.7	7.4	7.2	8.2	14.1	10.6	8.2
Cash P/E	8.9	6.9	6.0	5.5	5.9	7.7	6.3	5.2
P/BV	3.1	2.5	2.3	1.9	1.8	1.9	1.7	1.5
EV/Sales	0.3	0.4	0.3	0.3	0.2	0.2	0.3	0.3
EV/EBITDA	6.7	5.4	5.1	4.6	4.4	7.0	4.8	4.0
Dividend Yield (%)	2.3	3.2	6.1	5.9	5.3	4.6	2.7	3.8
FCF per share	77.1	6.3	-30.2	-11.4	1.5	-69.4	-10.0	36.9
Return Ratios (%)								
RoE	22.9	32.1	32.4	29.0	22.6	13.2	17.1	19.6
RoCE	12.9	17.7	16.2	13.7	11.8	8.8	7.5	8.7
RoIC	17.8	31.4	22.5	15.2	11.8	7.9	8.1	10.0
Working Capital Ratios								
Fixed Asset Turnover (x)	4.5	3.3	2.6	2.5	2.9	2.3	1.6	1.9
Asset Turnover (x)	5.2	3.5	2.9	2.9	3.3	2.7	1.8	2.1
Inventory (Days)	26	28	38	35	28	29	26	25
Debtor (Days)	4	4	9	8	8	7	6	5
Creditor (Days)	52	59	69	33	53	52	50	50
Leverage Ratio (x)								
Current Ratio	0.8	1.0	0.9	1.0	1.1	1.0	1.2	1.1
Interest Cover Ratio	6.3	16.0	16.7	10.4	7.0	2.3	3.7	4.4
Net Debt/Equity	0.4	0.4	0.8	0.8	0.9	1.5	1.4	1.2

Consolidated - Cash Flow Statement

(INR billion)

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
OP/(Loss) before Tax	77	118	128	129	120	23	89	115
Depreciation	30	21	21	29	34	41	45	49
Direct Taxes Paid	-26	-40	-42	-44	-44	0	-30	-38
(Inc)/Dec in WC	182	-71	27	-60	-15	17	-30	38
CF from Operations	263	27	133	54	96	81	74	163
CF from Operating incl EO	262	48	153	82	118	88	80	173
(Inc)/Dec in FA	-110	-36	-212	-104	-115	-225	-100	-100
Free Cash Flow	152	12	-59	-22	3	-136	-20	73
(Pur)/Sale of Investments	-7	19	-5	2	-7	13	0	0
CF from Investments	-117	-17	-217	-102	-122	-212	-100	-100
Issue of Shares	0	0	0	0	0	0	0	0
Inc/(Dec) in Debt	-118	1	104	55	59	187	62	-34
Dividend Paid	-19	-26	-50	-48	-44	-38	-22	-31
CF from Fin. Activity	-133	-24	42	15	-3	128	40	-65
Inc/Dec of Cash	11	8	-23	-5	-7	5	20	8
Opening Balance	23	34	42	19	14	7	12	32
Closing Balance	34	42	19	14	7	12	32	40

E: MOFSL Estimates

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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