

Retail Equity Research

Bharat Petroleum Corporation Limited

Oil, Gas & Consumable Fuels

BSE CODE: 500547

NSE CODE: BPCL

Bloomberg CODE: BPCL:IN

SENSEX: 38,220

12M Investment period

Rating as per Large Cap

CMP Rs. 412

TARGET Rs. 471

RETURN 14%

(Closing:20-08-20)



BUY

KEY CHANGES:

TARGET ↓

RATING ↑

EARNINGS ↓

Margins improve unfettered by lockdown

Bharat Petroleum Corporation Ltd is one of India's leading oil & gas companies. It operates refineries located in Kochi, Mumbai, Bina and Numaligarh. The company's marketing infrastructure consists of installations, retail outlets, depots and LPG distributors.

- Revenue down 41% YoY as demand for petroleum products stagnated amid lockdown. Domestic sales stood at 7.53MMT (-32.2% YoY).
- EBITDA margin expanded 520bps YoY to 7.7% on significant decline in operating expenses. Adoption of cost efficient and innovative methods aided bottom-line as PAT grew 93.1% YoY.
- With petroleum products deemed to be essential services, BPCL's refining and marketing operations continued despite the lockdown, and are expected to get back to normalcy sooner.
- Though the topline may remain subdued in the near future, we expect continuous improvements to reflect in the bottom-line on a sequential basis from current levels. We upgrade our rating to BUY on the stock with a revised target price of Rs. 471 based on SOTP valuation.

Sales take a hit on subdued demand

Q1FY21 standalone revenue declined 41% YoY to Rs. 50617cr as demand took a hit, thereby resulting in lower throughput and sales. Domestic sales thus stood lower at 7.53mmt (vs. 11.11mmt in Q1FY20). Vertical-wise, Retail sales of Motor Spirit (Petrol) sales dropped 38.8% YoY, while those of High Speed Diesel went down 34.6%YoY as the country largely remained under lockdown. Similarly, sales of Aviation Turbine Fuel reported a drastic 84.9% YoY decline as flights remained grounded. On the contrary, LPG sales went up 10.8% YoY owing to higher usage.

Cost optimizations aid margin growth

Average gross revenue margins (GRM) for the quarter stood at \$0.39/bbl (vs. 2.81/bbl in the prior year period), with that of Numaligarh at \$24.5/bbl (vs. \$26.3/bbl), and of BOREL at \$3.1/bbl (vs. \$7.5/bbl), due to a fall in naptha and gasoline cracks. Despite the decline, EBITDA rose 79.6% YoY to Rs. 3,916cr primarily on account of lower raw material costs. Resultantly, PAT nearly doubled to Rs. 2,076cr (+93.1% YoY), only partially offset by higher taxes.

Key con-call highlights

- Capex guidance for the year revised to Rs. ~8.1kcr (from Rs. 12.5kcr earlier). Of this, the company has so far spent Rs. 900 during Q1FY21.
- Even as dates for submission of EOI get extended to Sep. 30 owing to pandemic, management remains hopeful of completing divestment process by end of FY21.
- Company expects revenues to start flowing in from its exploration play in Mozambique from FY24 onwards. Whereas, in Brazil it has found substantial oil reserves having completed an extended drill test recently and expects to go for a final investment decision by Q3FY21 subject to regulatory approvals.
- BPCL's Debt/EBITDA ratio stood at 2.25 (vs. 5.53 in FY20), while the Adj. Debt to Equity ratio also improved to 1.00 as against 1.28 by the end of March.

Valuation

With overall throughput much higher than the industry average, BPCL is well-placed to take advantage of the improved demand outlook as the economy opens up. Though the sales figures may improve only gradually, the comparatively much lower costs of operations should translate to hefty gains in the bottom-line. We hereby upgrade our rating to BUY with a revised target price of Rs. 471 using SOTP valuation.

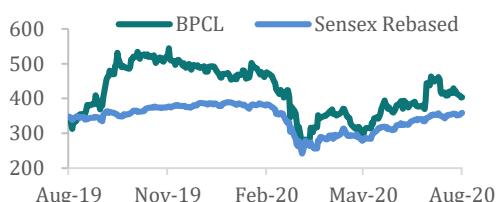
Company Data

Market Cap (cr)	Rs. 81,076
Enterprise Value (cr)	Rs. 125,349
Outstanding Shares (cr)	196.7
Free Float	38.0%
Dividend Yield	4.6%
52 week high	Rs. 550
52 week low	Rs. 252
6m average volume (cr)	0.04
Beta	1.0
Face value	Rs. 10

Shareholding %	Q3FY20	Q4FY20	Q1FY21
Promoters	53.0	53.0	53.0
FII's	14.1	12.3	12.0
MFs/Insti	19.3	20.5	21.3
Public	2.8	3.1	2.9
Others	10.9	11.2	10.8
Total	100.0	100.0	100.0
Promoters' pledge	0.0	0.0	0.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	33.4%	-12.6%	20.3%
Absolute Sensex	24.0%	-7.2%	2.4%
Relative Return*	9.4%	-5.4%	17.9%

*over or under performance to benchmark index



Standalone (cr)	FY20A	FY21E	FY22E
Sales	327,581	248,961	303,733
Growth (%)	(3.0)	(24.0)	22.0
EBITDA	6,639	10,305	13,713
EBITDA Margin (%)	2.0	4.1	4.5
Adj. PAT	3,764	4,994	7,653
Growth (%)	(47.2)	32.7	53.2
Adj. EPS	19.1	25.4	38.9
Growth (%)	(47.2)	32.7	53.2
P/E	16.5	16.2	10.6
P/B	1.9	2.4	2.3
EV/EBITDA	16.0	12.2	9.4
ROE (%)	8.1	15.0	22.1
D/E	1.3	1.3	1.4

Quarterly Financials (Standalone)

Profit & Loss Account

	Q1FY21	Q1FY20	YoY Growth %	Q4FY20	QoQ Growth %
Revenue	50,617	85,860	(41.0)	81,296	(37.7)
EBITDA	3,916	2,180	79.6	(619)	n.m.
EBITDA margins	7.7	2.5	520bps	(0.8)	n.m.
Depreciation	996	914	8.9	947	5.1
EBIT	2,920	1,266	130.7	(1,566)	n.m.
Interest	587	452	29.8	579	1.5
Other Income	593	538	10.2	76	681.4
Exceptional Items	-	-	-	(1,081)	n.m.
PBT	2,926	1,352	116.4	(2,068)	n.m.
Tax	850	277	207.2	(708)	n.m.
Share of profit from Associate	-	-	-	-	-
Minority Interest	-	-	-	-	-
Reported PAT	2,076	1,075	93.1	(1,361)	252.5
Adjustments	-	-	-	1,081	n.m.
Adj. PAT	2,076	1,075	93.1	(280)	n.m.
No. of shares	196.7	196.7	-	196.4	0.2
Adj. EPS (Rs.)	10.6	5.5	93.1	(40.4)	n.m.

Sum of the parts (SOTP) valuation

Particulars	Methodology	Multiple	% Holding	Value (Rs. cr.)	Value Per Share (Rs.)
BPCL (Standalone)	FY22E P/E	8.5	100.0%	65,104	331
Investments					164
- NRL	FY22E P/E	8.0	60.0%	11,977	61
- BPRL	P/BV	1.0	100.0%	3,651	19
- BORL	P/BV	1.0	50.0%	4,400	22
- Petronet	Geojit TP	-	12.5%	6,023	31
- Indraprastha Gas	Market Price	-	22.5%	6,458	33
	15% holding discount to investments				(25)
					471

Change in Estimates

Year / Rs. cr	Old estimates		New estimates		Change %	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Revenue	345,759	366,505	248,961	303,733	(28)	(17.1)
EBITDA	13,450	14,827	10,305	13,713	(23.4)	(7.5)
Margins (%)	3.9	4.0	4.1	4.5	20bps	50bps
Adj. PAT	7,985	8,688	4,994	7,653	(37.5)	(11.9)
Adj. EPS	40.6	44.2	25.4	38.9	(37.5)	(11.9)

PROFIT & LOSS

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Revenue	277,162	337,623	327,581	248,961	303,733
% change	14.5	21.8	(3.0)	(24.0)	22.0
EBITDA	11,669	11,964	6,639	10,305	13,713
% change	7.8	2.5	(44.5)	55.2	33.1
Depreciation	2,648	3,189	3,787	3,987	4,294
EBIT	9,020	8,775	2,852	6,318	9,419
Interest	833	1,319	2,182	2,417	2,659
Other Income	3,011	2,984	2,000	2,773	3,466
PBT	11,198	10,440	2,671	6,674	10,227
% change	1.4	(6.8)	(74.4)	149.9	53.2
Tax	3,279	3,308	(12)	1,680	2,574
Tax Rate (%)	29.3	31.7	(0.5)	25.2	25.2
Reported PAT	7,919	7,132	2,683	4,994	7,653
Adj*	-	-	1,081	-	-
Adj PAT	7,919	7,132	3,764	4,994	7,653
% change	(1.5)	(9.9)	(47.2)	32.7	53.2
No. of shares (cr)	196.7	196.7	196.7	196.7	196.7
Adj EPS (Rs.)	40.3	36.3	19.1	25.4	38.9
% change	(1.5)	(9.9)	(47.2)	32.7	53.2
DPS (Rs.)	14.0	19.0	19.0	25.0	30.0
CEPS (Rs.)	53.7	52.5	38.4	45.7	60.7

BALANCE SHEET

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Cash	76	78	98	135	130
Accounts Receivable	5,153	6,671	5,164	4,174	4,485
Inventories	20,874	21,545	20,421	15,249	18,373
Other Cur. Assets	10,796	18,343	15,380	13,589	12,596
Investments	10,826	10,916	10,850	12,092	11,199
Gross Fixed Assets	48,852	52,962	65,796	73,887	83,759
Net Fixed Assets	42,776	46,259	56,688	60,792	66,369
CWIP	4,044	6,703	9,108	10,092	11,182
Intangible Assets	566	592	660	686	715
Def. Tax (Net)	405	449	1,381	1,437	1,494
Other Assets	4,708	4,071	6,719	6,447	6,189
Total Assets	100,223	115,627	126,469	124,691	132,730
Current Liabilities	36,699	43,661	41,283	38,012	41,489
Provisions	1,366	1,510	1,574	1,732	1,766
Debt Funds	22,910	27,266	44,048	44,398	47,398
Other Liabilities	5,096	6,453	6,349	7,304	7,442
Equity Capital	1,967	1,967	1,967	1,967	1,967
Reserves & Surplus	32,185	34,771	31,248	31,279	32,668
Shareholder's Fund	34,152	36,738	33,214	33,246	34,634
Minority Interest	-	-	-	-	-
Total Liabilities	100,223	115,627	126,469	124,691	132,730
BVPS (Rs.)	174	187	169	169	176

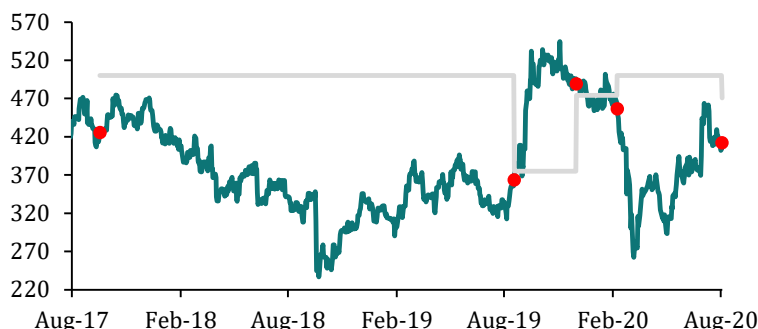
CASH FLOW

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Net inc. + Depn.	10,568	10,321	6,470	8,981	11,947
Non-cash adj.	1,811	6,024	15,796	(288)	5,782
Changes in W.C	(3,405)	(8,701)	2,630	6,163	(3,435)
C.F. Operation	8,975	7,645	24,896	14,856	14,294
Capital exp.	(6,915)	(9,017)	(8,787)	(8,091)	(9,871)
Change in inv.	(351)	518	31	(1,417)	719
Other invest.CF	2,517	962	(5,878)	(618)	(743)
C.F - Investment	(4,750)	(7,537)	(14,635)	(10,127)	(9,895)
Issue of equity	-	-	-	-	-
Issue/repay debt	(67)	5,176	(500)	350	3,000
Dividends paid	(2,885)	(3,540)	(3,737)	(3,738)	(4,918)
Other finance.CF	(1,252)	(1,723)	(2,222)	(1,305)	(2,486)
C.F - Finance	(4,204)	(87)	(6,459)	(4,693)	(4,404)
Chg. in cash	21	21	3,802	37	(5)
Closing cash	76	78	98	135	130

RATIOS

Y.E March	FY18A	FY19A	FY20A	FY21E	FY22E
Profitab. & Return					
EBITDA margin (%)	4.2	3.5	2.0	4.1	4.5
EBIT margin (%)	3.3	2.6	0.9	2.5	3.1
Net profit mgn.(%)	2.9	2.1	0.8	2.0	2.5
ROE (%)	23.2	19.4	8.1	15.0	22.1
ROCE (%)	15.8	13.7	3.7	8.1	11.5
W.C & Liquidity					
Receivables (days)	6.8	7.2	5.8	6.1	5.4
Inventory (days)	30.7	25.8	24.9	25.3	24.6
Payables (days)	19.2	20.6	15.3	15.7	16.0
Current ratio (x)	0.8	1.0	0.7	0.6	0.6
Quick ratio (x)	0.2	0.3	0.2	0.2	0.1
Turnover & Leverage					
Gross asset T.O (x)	6.6	6.6	5.5	3.6	3.9
Total asset T.O (x)	2.9	3.1	2.7	2.0	2.4
Int. coverage ratio (x)	10.8	6.7	1.3	2.6	3.5
Adj. debt/equity (x)	0.7	0.7	1.3	1.3	1.4
Valuation					
EV/Sales (x)	0.4	0.3	0.3	0.5	0.4
EV/EBITDA (x)	9.2	8.8	16.0	12.2	9.4
P/E (x)	10.6	11.0	16.5	16.2	10.6
P/BV (x)	2.5	2.1	1.9	2.4	2.3

Recommendation Summary



Dates	Rating	Target
4-Oct-17	HOLD	500
4-Sep-19	HOLD	375
18-Dec-19	HOLD	474
25-Feb-20	HOLD	500
21-Aug-20	BUY	471

Investment Rating Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated			

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note.

Accumulate: Partial buying or to accumulate as CMP dips in the future.

Hold: Hold the stock with the expected target mentioned in the note.

Reduce: Reduce your exposure to the stock due to limited upside.

Sell: Exit from the stock.

Not rated: The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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