

## Q1FY22 result review

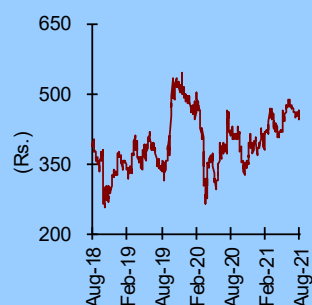
## Oil &amp; Gas

Target price: Rs544

## Shareholding pattern

	Dec '20	Mar '21	Jun '21
Promoters	51.5	53.0	53.0
Institutional investors	19.4	35.7	35.0
MFs and other	5.4	16.4	15.4
Banks / FIs	0.1	0.1	0.1
Insurance Cos.	8.1	6.8	6.9
FIs	5.8	12.4	12.6
Others	29.1	11.3	12.0

## Price chart



INDIA

## Bharat Petroleum Corporation

BUY

Maintain

Rs448

## Play on privatisation

Bharat Petroleum Corporation's (BPCL) Q1FY22 recurring EPS is down 29% YoY as hit from YoY plunge in net marketing margin exceeded gains from YoY rise in reported GRM and product inventory gain. Q1 consolidated recurring EPS is down 27% YoY (it is not really comparable as NRL boosted Q1FY21 EPS, but BPCL divested its stake in Mar'21). Auto fuel net marketing margin is on track to be in line with our FY22E estimate of Rs2.5/l or higher. BPCL's core GRM remains weak and diesel cracks recovery is key to GRM rising to our FY22E estimate of US\$3.5/bbl. We have kept FY22E EPS and target price unchanged. BPCL is our top pick among OMCs as we are more confident of gains from privatisation than GRM recovery, on which peers' fortunes depend more than that of BPCL. Retain BUY.

- **Q1 EPS hit by plunge in net marketing margin:** Standalone Q1FY22 recurring EPS is down 29% YoY, hit by 77% YoY fall in net marketing margin to Rs1.4/l, and despite 10.6x YoY rise in reported GRM to US\$4.12/bbl and 8% YoY rise in estimated product inventory gain to Rs10.8bn. Excluding inventory gain/loss, Q1 standalone EPS is down 77% YoY. Consolidated Q1 recurring EPS is down 27% YoY despite share of profit of associates being up 5.5x YoY at Rs2.6bn as NRL did not contribute to consolidated EPS in Q1FY22; BPCL divested its stake in NRL in Mar'21.
- **Marketing margins appear on track to be in line with FY22E estimate or higher:** Rs9-11.8/l hike in domestic diesel and petrol prices in FY22-TD and fall in international prices from 6-Jul'21 peak has meant that net auto fuel marketing margin is at Rs3.28/l on 12-Aug'21 and Rs2.89/l in Q2FY22-TD vs Rs1.43/l in Q1FY22 and Rs1.90/l in FY22-TD. Net margin is estimated at Rs3.98/l on 16-Aug'21 based on international prices during 1-11 Aug'21 and at Rs4.39/l at latest international prices. If domestic and international prices remain at current levels, FY22E net margin would work out to Rs3.45/l vs our FY22E estimate of Rs2.5/l.
- **Q1 core GRM estimated to be below FY22E GRM; diesel cracks recovery key to GRM rise:** We believe BPCL's Q1 reported GRM was boosted by inventory gain and core GRM was below our FY22E estimate of US\$3.5/bbl. Reuters Singapore GRM is at an 8-quarter high driven by petrol cracks at 7-quarter high in Q2FY22-TD. However, diesel cracks are weak at US\$5.2/bbl in FY22-TD and their rebound to pre-covid level of US\$11/bbl is key to GRM recovery.
- **BPCL is our preferred pick among OMCs:** We keep our FY22E EPS and our target price of Rs544 (21% upside) unchanged; it assumes 56% of holding realises Rs612 (8x FY22E EV/EBITDA) in successful bidder's open offer, and Rs459 (6x FY22E EV/EBITDA) is realised on the balance. BPCL is a play on privatisation and it going through at a similar valuation as estimated by us is key to our positive stance. Among OMCs, we prefer BPCL as we are more confident of gains from privatisation than GRM rebounding strongly, which is more crucial to stock performance of peers.

Market Cap	Rs972bn/US\$13.1bn
Reuters/Bloomberg	BPCL.BO/BPCL IN
Shares Outstanding (mn)	2,169.3
52-week Range (Rs)	487/327
Free Float (%)	47.0
FII (%)	12.6
Daily Volume (US\$'000)	60,351
Absolute Return 3m (%)	(0.2)
Absolute Return 12m (%)	11.7
Sensex Return 3m (%)	13.3
Sensex Return 12m (%)	44.5

Year to March	FY20	FY21	FY22E	FY23E
Revenue (Rs mn)	32,97,972	30,42,663	48,78,556	48,13,236
Net Income (Rs mn)	30,554	1,61,650	97,071	1,03,294
EPS (Rs)	19.0	69.5	46.4	49.4
% Chg YoY	-52.1%	266.1%	-33.3%	6.4%
P/E (x)	23.6	6.4	9.7	9.1
CEPS (Rs)	35.7	97.5	64.5	68.2
EV/E (x)	24.0	6.2	9.6	0.0
Dividend Yield	1%	10%	3%	3%
RoCE (%)	5%	18%	10%	10%
RoE (%)	8%	36%	15%	14%

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## BPCL play on privatisation; prefer among OMCs

### Q1 standalone & consolidated recurring EPS down 29-27% YoY

#### Q1 standalone EPS down 29% YoY on lower marketing margin

Q1FY22 standalone recurring EPS was down 29% YoY, hit by 77% YoY fall in marketing margin to Rs1.4/l resulting in decline in marketing EBITDA by 55% YoY. Q1 EPS fall is despite higher reported GRM of US\$4.12/bbl vs US\$0.39/bbl in Q1FY21, and an estimated 8% YoY rise in product inventory gain to Rs10.8bn.

**Table 1: Q1FY22 standalone recurring EPS down 29% YoY on lower marketing margin**

(Rs mn, year ending March 31)

	Q1FY22	Q1FY21	Change	Q4FY21	Change
Net sales	8,96,871	5,06,169	77%	9,87,556	-9%
Total expenditure	8,64,344	4,67,011	85%	9,29,746	-7%
<b>EBDITA</b>	<b>32,527</b>	<b>39,158</b>	<b>-17%</b>	<b>57,810</b>	<b>-44%</b>
<b>EBDITA margin</b>	<b>3.6%</b>	<b>7.7%</b>		<b>5.9%</b>	
Interest	4,867	5,871	-17%	4,776	2%
Depreciation	11,446	9,959	15%	9,998	14%
Other Income	4,517	5,933	-24%	16,640	-73%
PBT	20,732	29,262	-29%	59,677	-65%
Current tax	4,945	8,500	-42%	10,848	-54%
<b>Recurring PAT</b>	<b>15,787</b>	<b>20,762</b>	<b>-24%</b>	<b>48,828</b>	<b>-68%</b>
Exceptional item	-771	0		70,573	
<b>Reported PAT</b>	<b>15,017</b>	<b>20,762</b>	<b>-28%</b>	<b>1,19,401</b>	<b>-87%</b>
<b>Recurring EPS</b>	<b>7.5</b>	<b>10.6</b>	<b>-29%</b>	<b>23.3</b>	<b>-68%</b>
<b>Reported EPS</b>	<b>7.2</b>	<b>10.6</b>	<b>-32%</b>	<b>57.1</b>	<b>-87%</b>

Source: Company data, I-Sec research

#### Q1 earnings beat mainly due to higher GRM and inventory gain

Q1FY22 EBITDA and EPS were 126-136% higher than our estimates mainly due to:

- Reported GRM at US\$4.12/bbl vs our estimate of US\$1.0/bbl.
- Product inventory gain (balancing figure) at Rs10.8bn vs our estimate of Rs4.1bn.

**Table 2: Q1FY22 EBITDA up on the back of surge in GRM and inventory gain**

(Rs mn)	Q1FY22	Q1FY21	Change	Q4FY21	Change
Refining	6,005	-6,018	NM	18,606	-68%
Inventory gains	10,849	10,030	8%	18,290	-41%
Marketing including lubes	15,674	35,147	-55%	20,914	-25%
<b>EBITDA</b>	<b>32,527</b>	<b>39,158</b>	<b>-17%</b>	<b>57,810</b>	<b>-44%</b>
Reported GRM (US\$/bbl)	4.12	0.39	956%	6.64	-38%
Crude throughput (MMT)	6.84	5.14	33%	8.39	-18%
Domestic sales (MMT)	9.6	7.5	28%	11.2	-14%
Brent (US\$/bbl)	68.6	31.4	118%	60.7	13%
Exchange rate (US\$-Rs)	73.7	75.5	-2%	72.9	1%

Source: Company data, I-Sec research

#### Q1 consolidated recurring EPS down 27% YoY

Consolidated Q1 recurring EPS of Rs7.5 is down 27% YoY despite share of profit of associates and JVs being up 5.5x YoY at Rs2.6bn. Q1FY22 consolidated EPS is not really comparable with EPS of Rs10.3 in Q1FY21 as NRL boosted Q1FY21 consolidated profit by Rs2.6bn; it no longer contributes to BPCL's consolidated profit as BPCL divested its entire stake in NRL in Mar'21.

**Table 3: Q1FY22 consolidated recurring EPS down 27% YoY; NRL did not contribute to Q1FY22 profit due to divestment vs contributing Rs2.6bn to Q1FY21 consolidated profit**

(Rs mn, year ending March 31)

	Q1FY22	Q1FY21	Change	Q4FY21	Change
Net sales	8,97,123	5,09,092	76%	9,97,332	-10%
Total expenditure	8,65,873	4,66,494	86%	9,27,095	-7%
<b>EBDITA</b>	<b>31,250</b>	<b>42,599</b>	<b>-27%</b>	<b>70,238</b>	<b>-56%</b>
<b>EBDITA margin</b>	<b>3.5%</b>	<b>8.4%</b>		<b>7.0%</b>	<b>-51%</b>
Interest	5,823	6,911	-16%	5,791	1%
Depreciation	11,499	10,728	7%	11,237	2%
Other Income	4,191	5,370	-22%	6,768	-38%
PBT	18,118	30,330	-40%	59,978	-70%
Share of profit/loss of associates/JVs	2,608	478	446%	4,356	-40%
Tax	4,988	8,930	-44%	2,894	72%
Minority interest	0	1,524		3,406	
Recurring PAT	15,738	20,354	-23%	58,034	-73%
Extra-ordinary items	12,989	0		44,979	
Reported PAT	28,728	20,354	41%	1,03,013	-72%
<b>Recurring EPS</b>	<b>7.5</b>	<b>10.3</b>	<b>-27%</b>	<b>27.7</b>	<b>-73%</b>
<b>Reported EPS</b>	<b>13.7</b>	<b>10.3</b>	<b>33%</b>	<b>49.2</b>	<b>-72%</b>

Source: Company data, I-Sec research

## Financial summary

**Table 4: Profit & Loss statement**
*(Rs mn, year ending March 31)*

	FY20	FY21	FY22E	FY23E
<b>Operating Income (Sales)</b>	<b>32,97,972</b>	<b>30,42,663</b>	<b>48,78,556</b>	<b>48,13,236</b>
<b>Operating Expenses</b>	<b>32,14,481</b>	<b>28,17,548</b>	<b>47,18,763</b>	<b>46,40,401</b>
<b>EBITDA</b>	<b>83,490</b>	<b>2,25,115</b>	<b>1,59,793</b>	<b>1,72,835</b>
% margins	2.5%	7.4%	3.3%	3.6%
Depreciation & Amortisation	-40,801	-43,342	-50,684	-52,881
Gross Interest	-26,370	-17,234	-18,376	-17,814
Other Income	19,293	22,530	26,053	22,115
<b>Recurring PBT</b>	<b>35,613</b>	<b>2,03,192</b>	<b>1,16,787</b>	<b>1,24,255</b>
Less: Taxes	29,458	1,60,618	84,371	89,959
<b>Net Income (Reported)</b>	<b>30,554</b>	<b>1,61,650</b>	<b>97,071</b>	<b>1,03,294</b>
<b>Recurring Net Income</b>	<b>37,360</b>	<b>1,45,527</b>	<b>97,071</b>	<b>1,03,294</b>

Source: Company data, I-Sec research

**Table 5: Balance sheet**
*(Rs mn, year ending March 31)*

	FY20	FY21	FY22E	FY23E
<b>Assets</b>				
Total Current Assets	3,97,244	3,95,638	5,07,527	4,95,901
of which cash & cash eqv.	11,648	81,101	96,022	99,688
Total Current Liabilities & Provisions	4,44,628	5,49,144	6,44,073	6,54,310
<b>Net Current Assets</b>	<b>-47,384</b>	<b>-1,53,506</b>	<b>-1,36,546</b>	<b>-1,58,409</b>
Investments	1,05,109	1,25,301	1,76,841	1,76,841
<b>Net Fixed Assets</b>	<b>8,17,067</b>	<b>8,36,480</b>	<b>9,40,091</b>	<b>9,40,211</b>
Capital Work-in-Progress	1,77,567	1,71,401	1,27,827	2,02,825
<b>Total Assets</b>	<b>10,64,008</b>	<b>10,60,776</b>	<b>12,04,234</b>	<b>12,61,157</b>
<b>Liabilities</b>				
<b>Borrowings</b>	<b>6,16,482</b>	<b>4,75,881</b>	<b>4,39,168</b>	<b>4,44,168</b>
Equity Share Capital	19,669	20,929	20,929	20,929
Face Value per share (Rs)	10.0	10.0	10.0	10.0
Reserves & Surplus*	2,85,928	4,44,065	6,63,211	7,07,773
<b>Net Worth</b>	<b>3,65,323</b>	<b>5,35,551</b>	<b>7,20,350</b>	<b>7,72,273</b>
<b>Total Liabilities</b>	<b>10,64,008</b>	<b>10,60,776</b>	<b>12,04,234</b>	<b>12,61,157</b>

\*Excluding revaluation reserves;

Source: Company data, I-Sec research

**Table 8: Quarterly trend**
*(Rs bn, year ending March 31)*

	Sep'20	Dec'20	Mar'21	Jun'21
Net sales	659.1	865.8	987.6	896.9
% growth (YoY)	(12)	1	21	77
EBITDA	44.8	43.8	57.8	32.5
EBITDA Margin (%)	6.8	5.1	5.9	3.6
Other income	5.7	15.1	16.6	4.5
Add: Extraordinaries	7.6	(4.9)	70.6	(7.8)
<b>Net profit</b>	<b>30.0</b>	<b>32.7</b>	<b>48.8</b>	<b>15.8</b>

Source: Company data, I-Sec research

**Table 6: Cashflow statement**
*(Rs mn, year ending March 31)*

	FY20	FY21	FY22E	FY23E
<b>Operating Cashflow</b>	<b>70,259</b>	<b>2,03,960</b>	<b>1,35,055</b>	<b>1,42,841</b>
Working Capital	(1,25,400)	(1,06,122)	16,960	(21,863)
Changes				
Cashflow from	1,95,659	3,10,082	1,18,095	1,64,703
Operating Activities				
Capital Commitments	(3,53,788)	(66,491)	(96,716)	(1,28,000)
<b>Cashflow from Investing Activities</b>	<b>(2,67,819)</b>	<b>(86,682)</b>	<b>(1,48,256)</b>	<b>(1,28,000)</b>
Inc (Dec) in Borrowings	1,87,337	(1,40,602)	(36,713)	5,000
Dividend paid	6,653	1,86,421	33,037	33,037
<b>Chg. in Cash &amp; Bank balances</b>	<b>1,08,524</b>	<b>(1,02,362)</b>	<b>(99,910)</b>	<b>8,667</b>

Source: Company data, I-Sec research

**Table 7: Key ratios**
*(Year ending March 31)*

	FY20	FY21	FY22E	FY23E
<b>Per Share Data (Rs)</b>				
EPS (Basic Recurring)	19.0	69.5	46.4	49.4
Diluted Recurring EPS	19.0	69.5	46.4	49.4
Recurring Cash flow per share	35.7	97.5	64.5	68.2
Dividend per share (DPS)	3.0	44.0	14.0	14.0
Book Value per share (BV)	185.7	255.9	344.2	369.0
<b>Growth Ratios (%)</b>				
Operating Income	-3.3%	-7.7%	60.3%	-1.3%
EBITDA	-44.8%	169.6%	-29.0%	8.2%
Recurring Net Income	-52.1%	289.5%	-33.3%	6.4%
Diluted Recurring EPS	-52.1%	266.1%	-33.3%	6.4%
Cash flow per share	-36.2%	172.8%	-33.8%	5.8%
<b>Valuation Ratios (x)</b>				
P/E	23.6	6.4	9.7	9.1
P/CEPS	12.5	4.6	6.9	6.6
P/BV	2.4	1.75	1.30	1.21
EV / EBITDA	24.0	6.2	9.6	0.0
EV / Operating Income	9.1	24.0	6.2	9.6

**Operating Ratios**

Other Income / PBT (%)	54.2%	11.1%	22.3%	17.8%
Effective Tax Rate (%)	17.3%	21.0%	27.8%	27.6%
NWC / Total Assets (%)	-4.5%	-14.5%	-11.3%	-12.6%
D/E Ratio (%)	168.7%	88.9%	61.0%	57.5%

**Return/Profitability Ratios (%)**

Recurring Net Income Margins	1.1%	4.8%	2.0%	2.1%
RoCE	4.7%	18.2%	10.1%	10.1%
RoNW	8.1%	35.9%	15.5%	13.8%
Dividend Payout Ratio	35.4%	48.4%	31.8%	31.0%
Dividend Yield	0.7%	9.8%	3.1%	3.1%
EBITDA Margins	2.5%	7.4%	3.3%	3.6%

Source: Company data, I-Sec research

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