

CMP: ₹ 343

Target: ₹ 380 (11%)

Target Period: 12 months

HOLD

January 31, 2023

Refining segment continues to remain strong...

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 63% of marketing sales in FY22

Q3FY23 Results: BPCL reported higher-than-expected earnings in Q3FY23.

- Revenue was up 13.5% YoY, 4% QoQ to ₹ 133331.5 crore (I-direct estimate: ₹ 117981 crore)
- GRM was above our estimates at US\$15.9/bbl (I-direct estimate: US\$12/bbl). EBITDA came in at ₹ 4233.9 crore, down 16.3% YoY, up 195% QoQ (on a weak base) (I-direct estimate: ₹ 3098 crore)
- PAT was at ₹ 1959.6 crore against a net loss of ₹ 304 crore (I-direct estimate: ₹ 1386 crore)

What should investors do? BPCL's GRMs are likely to improve with a rise in product cracks. Although the company has not passed on higher crude oil costs to customers, with narrowing of diesel losses the marketing segment performance is likely to improve in the near term.

- We maintain our **HOLD** rating on the stock

Target Price and Valuation: We value BPCL at ₹ 380 i.e. average of P/BV multiple: ₹ 400/share and P/E multiple: ₹ 360/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 Reliance Industries (RIL).

- RIL is one of India's biggest conglomerates with a presence in oil refining & marketing and petrochemicals, oil & gas exploration, retail, digital services, media, etc, making it a well-diversified business entity
- BUY with a target price of ₹ 3050



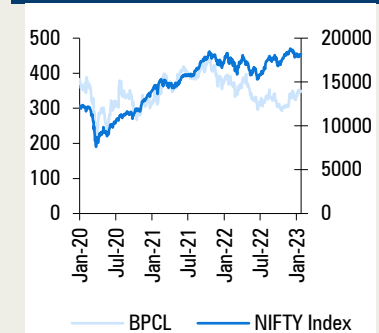
Particulars

Particular	Amount
Market Capitalization (₹ Crore)	73,040.1
Total Debt (FY22) (₹ Crore)	37,256.2
Cash and Investments (FY22)	1,347.3
EV (₹ Crore)	1,08,949.0
52 week H/L	434/ 288
Equity capital (₹ Crore)	2,129.5
Face value (₹)	10.0

Shareholding pattern

(in %)	Mar-22	Jun-22	Sep-22	Dec-22
Promoter	53.0	53.0	53.0	53.0
FII	13.7	13.2	13.0	12.5
DII	19.9	20.7	20.9	21.8
Others	13.5	13.2	13.2	12.7

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)	FY20	FY21	FY22	5 year CAGR (FY17-22E)	FY23E	FY24E	FY25E	2 year CAGR (FY22E-24E)
Revenues (₹ crore)	3,27,580.8	3,01,865.0	4,32,590.2	12.3	5,21,994.3	4,74,096.4	4,51,507.3	1.4
EBITDA (₹ crore)	6,639.3	17,130.6	17,326.0	9.9	8,682.3	27,395.3	22,578.4	9.2
Net Profit (₹ crore)	2,683.2	19,041.7	9,301.4	3.0	1,110.4	16,348.5	12,745.5	11.1
EPS (₹)	13.6	91.0	43.7		5.2	76.8	59.9	
P/E (x)	25.1	3.8	7.9		65.8	4.5	5.7	
Price / Book (x)	2.0	1.3	1.5		1.4	1.2	1.0	
EV/EBITDA (x)	17.3	5.8	6.3		13.0	3.8	4.5	
RoCE (%)	3.5	14.8	13.9		2.7	20.4	15.1	
RoE (%)	8.1	34.9	18.5		2.2	25.8	17.7	

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

Key takeaways of recent quarter & conference call highlights

Q3FY23 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 Q3FY23
- BPCL's marketing sales were at 12.8 MMT, up 15% YoY, 12% QoQ, above I-direct estimate of 11.8 MMT. The company reported marketing inventory loss and forex loss of ₹ 752 crore and ₹ 141 crore, respectively
- We expect marketing sales at 49.3 MMT, 51.7 MMT and 51.6 MMT in FY23E, FY24E and FY25E, respectively
- BPCL achieved crude throughput of 9.4 MMT post amalgamation of BORL. BORL has 7.8 MMTPA refining capacity. Going ahead, on account of increased capacity, we estimate crude throughput of 37.4 MMT, 40 MMT, 40 MMT in FY23E, FY24E and FY25E, respectively
- Reported GRMs at US\$16.9/bbl were above our estimate of US\$12/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\$18.6/bbl, US\$10/bbl and US\$8/bbl in FY23E, 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)	343	380	Hold	73,040	91.0	43.7	5.2	3.8	7.9	65.8	5.8	6.3	13.0	14.8	13.9	2.7	34.9	18.5	2.2
HPCL (HINPET)	232	250	Hold	32,919	44.9	-39.6	47.8	5.2	-5.9	4.9	7.8	-18.2	6.6	7.3	-9.9	8.3	16.5	-17.0	18.3
Indian Oil Corp (INDOIL)	77	85	Hold	1,08,734	17.1	2.8	14.0	4.5	27.1	5.5	2.5	5.8	2.6	12.9	2.4	10.1	18.4	3.2	14.9

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

Exhibit 2: Variance Analysis

	Q3FY23	Q3FY23E	Q3FY22	YoY (%)	Q2FY23	QoQ (%)	Comments
Total Revenues	1,33,331.5	1,17,980.8	1,17,462.9	13.5	1,28,332.7	3.9	Better than estimates due to higher than expected GRMs
Raw materials costs	56,016.7	46,685.3	45,536.3	23.0	59,555.2	-5.9	
Employees Cost	739.6	624.5	923.6	-19.9	560.7	31.9	
Other Expenses	72,341.3	67,572.1	65,946.4	9.7	66,782.8	8.3	
Total Expenditure	1,29,097.6	1,14,881.9	1,12,406.3	14.8	1,26,898.7	1.7	
EBITDA	4,233.9	3,098.8	5,056.7	-16.3	1,434.0	195.3	Higher than expected due to better refining margins
EBITDA margins (%)	3.2	2.6	4.3	-113 bps	1.1	206 bps	
Depreciation	1,582.0	1,299.7	1,389.5	13.9	1,556.6	1.6	
EBIT	2,651.9	1,799.2	3,667.2	-27.7	-122.6	-2,263.0	
Interest	978.0	581.0	564.6	73.2	810.6	20.7	
Other Income	451.9	635.0	704.0	-35.8	557.4	-18.9	
Extra Ordinary Item	0.0	0.0	0.0	NA	0.0	NA	
PBT	2,125.8	1,853.2	3,806.6	-44.2	-375.8	-665.7	
Total Tax	166.3	467.0	978.1	-83.0	-71.6	-332.2	
PAT	1,959.6	1,386.2	2,828.4	-30.7	-304.2	-744.2	PAT improved QoQ due to narrowing of marketing losses

Key Metrics

Exchange rate (₹/\$)	82.2	82.2	75.0	9.7	79.8	3.0	
Throughput (mmt)	9.4	8.9	8.0	18.1	8.8	6.5	Higher than estimates
Sales (mmt)	12.8	11.8	11.2	14.9	11.4	12.0	Higher than estimates
GRM (\$/barrel)	15.9	12.0	9.7	64.0	16.8	-5.2	Higher than estimates

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

Exhibit 3: Change in estimates

(\$ Crore)	FY23E			FY24E			FY25E			Comments
	Old	New	Change	Old	New	Change	Old	New	Change	
Revenue	501006.4	5,21,994.3	4.2	462153.7	4,74,096.4	2.6	471250.8	4,51,507.3	-4.2	
EBITDA	5879.8	8,682.3	47.7	22308.8	27,395.3	22.8	22574.6	22,578.4	0.0	Revise estimates post Q3FY23 taking into account product cracks and marketing profitability trend
EBITDA Margin (%)	1.2	1.7	49 bps	4.8	5.8	95 bps	4.8	5.0	21 bps	
PAT	-710.2	1,110.4	-256.3	12502.6	16,348.5	30.8	12701.4	12,745.5	0.3	
EPS (₹)	-3.3	5.2	-256.3	58.7	76.8	30.8	59.6	59.9	0.3	

Source: ICICI Direct Research

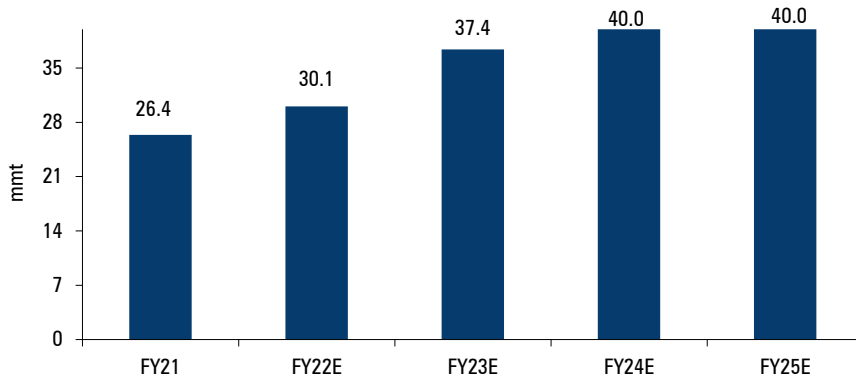
Exhibit 4: Assumptions

	Current					Earlier			Comments
	FY21	FY22	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	
Exchange rate (₹/\$)	74.0	74.6	80.2	82.2	82.2	80.2	82.2	82.2	
Throughput (mmt)	26.4	30.1	37.4	40.0	40.0	36.7	40.0	40.0	
Sales (mmt)	38.7	42.5	49.4	51.7	51.6	47.2	49.3	51.5	
GRM (\$/barrel)	4.1	9.1	18.6	10.0	8.0	16.5	8.0	8.0	We revise GRM estimates as per current product cracks trend

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

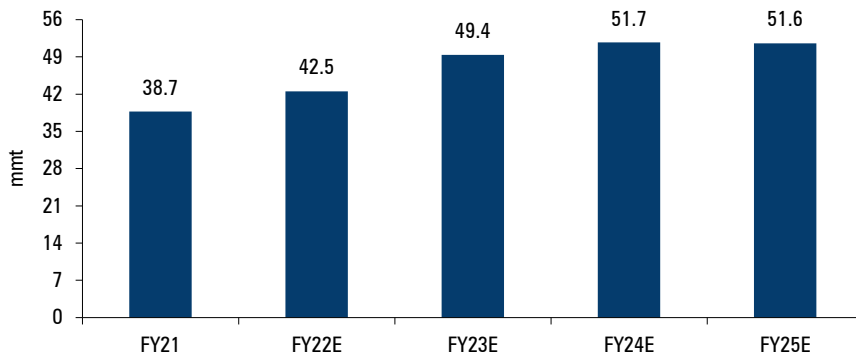
Story in charts

Exhibit 5: Oil throughput trend



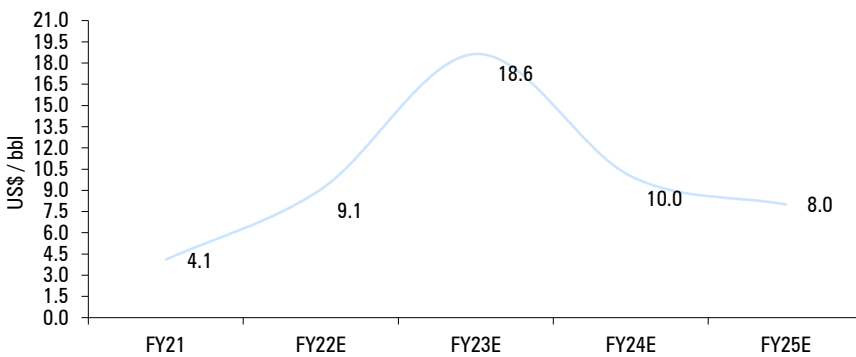
Source: Company, ICICI Direct Research, FY22 numbers are pre-amalgamation

Exhibit 6: Marketing sales volume trend



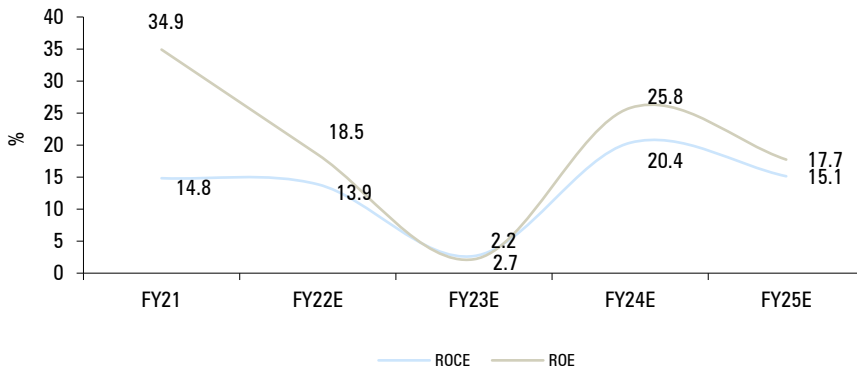
Source: Company, ICICI Direct Research

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)	FY22	FY23E	FY24E	FY25E
Revenue	432590.2	521994.3	474096.4	451507.3
Growth (%)	43.3	20.7	-9.2	-4.8
(Inc.)/(Dec.) in stock in trade	-4573.0	-19.1	0.0	0.0
Raw material Costs	154095.4	224335.8	182970.3	173465.3
Purchase of Products	160859.0	200260.8	173056.8	163631.9
Employee Costs	3371.7	2665.4	2914.2	3083.9
Other Expenditure	101511.1	86069.2	87759.8	88747.8
Op. Expenditure	415264.2	513312.0	446701.1	428928.9
EBITDA	17326.0	8682.3	27395.3	22578.4
Growth (%)	1.1	-49.9	215.5	-17.6
Depreciation	5196.0	6051.3	5689.9	5689.9
EBIT	12129.9	2631.0	21705.4	16888.5
Interest	2096.7	2985.1	2489.1	2489.1
Other Income	2563.8	2086.0	2640.0	2640.0
PBT	12597.0	1731.9	21856.3	17039.4
Growth (%)	-44.3	-86.3	1162.0	-22.0
Tax	3295.7	621.4	5507.8	4293.9
Reported PAT	9301.4	1110.4	16348.5	12745.5
Growth (%)	-51.2	-88.1	1372.2	-22.0
EPS	43.7	5.2	76.8	59.9

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

Exhibit 10: Cash flow statement				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
Profit after Tax	9,301.4	1,110.4	16,348.5	12,745.5
Add: Depreciation	5,196.0	6,051.3	5,689.9	5,689.9
Add: Others	411.2	100.0	100.0	100.0
Cash Profit	27,058.6	7,261.8	22,138.4	18,535.4
Increase/(Decrease) in CL	11,284.6	6,225.9	-1,583.7	-3,391.9
(Increase)/Decrease in CA	-12,147.5	-7,969.2	6,515.5	2,519.8
CF from Operating Activiti	26195.7	5518.4	27070.3	17663.4
Purchase of Fixed Assets	6,631.8	8,365.8	7,763.0	7,271.7
(Inc)/Dec in Investments	-2,552.7	-1,000.0	-5,000.0	-5,000.0
Others	0.0	0.0	0.0	0.0
CF from Investing Activiti	-9184.5	-9365.8	-12763.1	-12271.7
Inc/(Dec) in Loan Funds	3,095.8	10,000.0	-4,000.0	-3,500.0
Less: Dividend Paid	26,900.9	0.0	4,258.9	4,258.9
Inc/(Dec) in Sh. Cap. & Res.	1,087.4	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0
CF from financing activiti	-22,717.7	10,000.0	-8,258.9	-7,758.9
Change in cash Eq.	-5,706.4	6,152.7	6,048.3	-2,367.3
Op. Cash and cash Eq.	7,053.7	1,347.3	7,499.9	13,548.2
Cl. Cash and cash Eq.	1,347.3	7,499.9	13,548.2	11,181.0

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

Exhibit 11: Balance Sheet				
	₹ crore			
(Year-end March)	FY22	FY23E	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	48,053.0	49,163.4	61,253.0	69,739.5
Shareholder's Fund	50,182.4	51,292.9	63,382.4	71,869.0
Loan Funds	37,256.2	47,256.2	43,256.2	39,756.2
Deferred Tax Liability	4,882.7	4,982.7	5,082.7	5,182.7
Minority Interest	0.0	0.0	0.0	0.0
Source of Funds	92321.3	103531.7	111721.3	116807.9
Application of Funds				
Gross Block	90,682.7	99,432.7	1,08,182.7	1,16,932.7
Less: Acc. Depreciation	21,171.0	26,356.6	32,033.5	38,201.7
Net Block	69,511.7	73,076.1	76,149.2	78,731.0
Capital WIP	3,312.7	2,062.7	1,062.7	62.7
Total Fixed Assets	72,824.3	75,138.8	77,211.9	78,793.7
Investments	20,236.8	21,236.8	26,236.8	31,236.8
Inventories	36,307.1	42,903.6	37,667.9	35,873.2
Debtor	9,738.3	11,441.0	10,391.2	9,896.1
Cash	1,347.3	7,499.9	13,548.2	11,181.0
Loan & Advance, Other CA	10558.9	10228.9	9998.9	9768.9
Total Current assets	57951.5	72073.4	71606.2	66719.1
Current Liabilities	54207.3	68645.8	58450.2	55665.3
Provisions	4484.1	-3728.5	4883.3	4276.4
Total CL and Provisions	58691.4	64917.3	63333.6	59941.7
Net Working Capital	-739.9	7156.1	8272.6	6777.4
Miscellaneous expense	0.0	0.0	0.0	0.0
Application of Funds	92321.3	103531.7	111721.3	116807.9

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

Exhibit 12: Key ratios				
(Year-end March)	FY22	FY23E	FY24E	FY25E
Per share data (₹)				
Book Value	235.7	240.9	297.6	337.5
Cash per share	6.3	35.2	63.6	52.5
EPS	43.7	5.2	76.8	59.9
Cash EPS	68.1	33.6	103.5	86.6
DPS	16.0	0.0	20.0	20.0
Profitability & Operating Ratios				
EBITDA Margin (%)	4.0	1.7	5.8	5.0
PAT Margin (%)	2.2	0.2	3.4	2.8
Fixed Asset Turnover (x)	5.9	6.9	6.1	5.7
Inventory Turnover (Days)	30.6	30.0	29.0	29.0
Debtor (Days)	8.2	8.0	8.0	8.0
Current Liabilities (Days)	45.7	48.0	45.0	45.0
Return Ratios (%)				
RoE	18.5	2.2	25.8	17.7
RoCE	13.9	2.7	20.4	15.1
RoIC	14.4	2.9	23.6	16.9
Valuation Ratios (x)				
PE	7.9	65.8	4.5	5.7
Price to Book Value	1.5	1.4	1.2	1.0
EV/EBITDA	6.3	13.0	3.8	4.5
EV/Sales	0.3	0.2	0.2	0.2
Leverage & Solvency Ratios				
Debt to equity (x)	0.7	0.9	0.7	0.6
Interest Coverage (x)	5.8	0.9	8.7	6.8
Debt to EBITDA (x)	2.2	5.4	1.6	1.8
Current Ratio	1.0	1.1	1.1	1.1
Quick ratio	0.4	0.4	0.5	0.5

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)	343	380	Hold	73,040	91.0	43.7	5.2	3.8	7.9	65.8	5.8	6.3	13.0	14.8	13.9	2.7	34.9	18.5	2.2
GAIL (India) (GAIL)	88	100	Hold	57,861	11.0	23.3	9.5	8.0	3.8	9.3	6.7	3.2	7.7	8.7	18.8	9.2	10.5	18.6	10.6
Gujarat Gas (GUJGA)	515	550	Hold	35,453	18.9	18.9	26.6	27.2	27.3	19.4	17.3	16.9	12.1	27.3	22.0	26.4	23.3	19.6	22.5
HPCL (HINPET)	232	250	Hold	32,919	44.9	-39.6	47.8	5.2	-5.9	4.9	7.8	-18.2	6.6	7.3	-9.9	8.3	16.5	-17.0	18.3
Indian Oil Corp (INDOIL)	77	85	Hold	1,08,734	17.1	2.8	14.0	4.5	27.1	5.5	2.5	5.8	2.6	12.9	2.4	10.1	18.4	3.2	14.9
Indraprastha Gas (INDGAS)	418	490	Buy	29,260	14.4	18.8	20.1	29.1	22.3	20.8	19.0	14.9	13.7	20.0	22.3	20.8	17.1	19.0	17.7
Mahanagar Gas (MAHGAS)	897	1,000	Hold	8,860	60.4	50.4	79.6	14.8	17.8	11.3	9.2	10.6	6.9	19.8	15.1	22.2	16.6	13.1	18.4
ONGC (ONGC)	149	155	Hold	1,91,217	10.4	8.9	32.0	14.3	16.7	4.7	4.2	6.4	3.3	10.2	4.5	14.8	6.7	5.5	17.0
Petronet LNG (PETLNG)	225	230	Hold	33,750	19.7	22.3	22.0	11.4	10.1	10.2	7.0	6.2	6.2	26.0	27.0	23.7	25.3	25.0	22.6
Reliance Industries (RELIND)	2,443	3,050	Buy	16,52,690	89.7	89.7	100.6	32.0	27.2	24.3	22.9	17.9	13.1	5.5	7.1	9.2	7.0	7.8	8.1

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

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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