

February 12, 2016

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Rating	BUY
Price	Rs773
Target Price	Rs1,049
Implied Upside	35.7%
Sensex	22,986
Nifty	6,981

(Prices as on February 12, 2016)
Trading data

Market Cap. (Rs bn)	558.8
Shares o/s (m)	723.1
3M Avg. Daily value (Rs m)	1017

Major shareholders

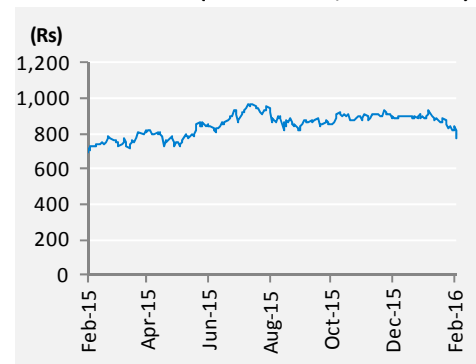
Promoters	54.93%
Foreign	19.67%
Domestic Inst.	10.69%
Public & Other	14.71%

Stock Performance

(%)	1M	6M	12M
Absolute	(13.2)	(11.2)	9.5
Relative	(6.3)	5.3	29.7

How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2017	95.2	89.5	6.3
2018	106.4	101.9	4.4

Price Performance (RIC: BPCL.BO, BB: BPCL IN)

Source: Bloomberg

- **Strong refining profits:** BPCL reported Q3FY16 results in line with our estimates; EBITDA of Rs24.1bn (PLe: Rs23.1bn) and PAT of Rs14.9bn (PLe: Rs14.0bn). Firm refining and marketing margins (despite marketing inventory loss of Rs8.4bn), supported earnings. Continued refining strength (Q4 GRM of US\$8/bbl) and healthy marketing margins augurs well for steady operating performance.
- **Refining margins recover from Q2 lows:** BPCL's refining margins recovered from Q2 lows; Q3 GRMs at US\$7.7/bbl (Q2FY16 at US\$3.9/bbl). Healthy margins are especially impressive, given 13% crude price correction in Q3. Singapore benchmark continues to remain healthy at ~US\$8/bbl and stable crude prices provide upside risk to earnings, given potential zero inventory loss.
- OMCs are also benefitting from lower fuel and oil losses which accounts for 5-9% led by falling crude oil prices. Also, rising crude supplies has accentuated the discounts being offered to the refiners, thereby, adding to refining margins.
- **Marketing profits remain strong:** BPCL's marketing profitability is expected to improve, going forward, in our view. Gross marketing margins for diesel and petrol were at Rs2.2/3.0/litre in Q3 (Rs1.9/2.9/litre in Q2), in our view. Q4 gross margins for diesel and petrol have expanded further and are at Rs3.7/3.2/litre.
- **Reiterate 'BUY':** BPCL's earnings are expected to grow at 17% CAGR FY15-18E. We remain positive on BPCL, given **1)** firm refining margins **2)** zero inventory loss, given stable crude oil prices and **3)** healthy marketing profits. Maintain **'BUY'**.

Key financials (Y/e March)

	2015	2016E	2017E	2018E
Revenues (Rs m)	2,425,985	1,966,501	1,900,850	2,033,917
Growth (%)	(8.2)	(18.9)	(3.3)	7.0
EBITDA (Rs m)	97,776	129,563	132,846	148,896
PAT (Rs m)	48,066	67,488	68,815	76,902
EPS (Rs)	66.5	93.3	95.2	106.4
Growth (%)	22.9	40.4	2.0	11.8
Net DPS (Rs)	22.5	33.9	33.3	38.2

Profitability & Valuation

	2015	2016E	2017E	2018E
EBITDA margin (%)	4.0	6.6	7.0	7.3
RoE (%)	22.9	27.5	24.0	23.3
RoCE (%)	12.0	15.3	13.5	13.4
EV / sales (x)	0.3	0.3	0.3	0.3
EV / EBITDA (x)	6.7	4.9	4.7	4.2
PE (x)	11.6	8.3	8.1	7.3
P / BV (x)	2.5	2.1	1.8	1.6
Net dividend yield (%)	2.9	4.4	4.3	4.9

Source: Company Data; PL Research

Exhibit 1: BPCL financials

Y/e March	Q3FY16	Q3FY15	YoY gr. (%)	Q2FY16	9MFY16	9MFY15	YoY gr. (%)
Net sales	466,666	579,145	(19.4)	464,736	1,451,062	1,867,299	(22.3)
Inc/dec in stock	11,319	33,566	(66.3)	(1,351)	5,646	36,899	(84.7)
Raw material cons	140,316	222,200	(36.9)	168,506	496,935	768,379	(35.3)
Staff cost	7,087	2,305	207.5	6,146	20,191	15,991	26.3
Purchases	253,638	280,808	(9.7)	248,274	763,591	925,488	(17.5)
Other expenditure	30,140	28,567	5.5	29,840	89,033	82,466	8.0
Exp	(442,501)	(567,445)	NA	(451,415)	(1,375,396)	(1,829,222)	NA
Operating profit	24,165	11,700	106.5	13,321	75,666	38,077	98.7
Interest	(975)	(1,201)	NA	(1,074)	(3,196)	(4,440)	NA
Depreciation	(4,564)	(6,265)	NA	(4,172)	(14,108)	(18,170)	NA
Other income	3,011	3,505	(14.1)	6,865	13,176	16,289	(19.1)
Profit before tax	21,636	7,740	179.5	14,941	71,538	31,755	125.3
Current tax	(6,751)	(2,228)	NA	(4,760)	(22,711)	(9,440)	NA
Profit after current tax	14,885	5,512	170.1	10,181	48,827	22,316	118.8

Source: Company Data, PL Research

Exhibit 2: BPCL data

	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15
Crude thrupt (MTPA)	5.3	6.1	5.8	6.1	6.1	6.0	5.9
GRM (\$/bbl)	3.4	1.5	1.5	7.9	8.6	3.9	7.7
Product inventory gains/losses (Rs m)	2,160	(2,700)	(16,610)	(14,270)	2,040	(7,410)	(8,340)
Forex gains/losses (Rs m)	5,872	(2,990)	(1,480)	840	(480)	(2,361)	(1,010)

Source: Company Data, PL Research

Income Statement (Rs m)

Y/e March	2015	2016E	2017E	2018E
Net Revenue	2,425,985	1,966,501	1,900,850	2,033,917
Raw Material Expenses	1,228,180	843,636	802,021	810,894
Gross Profit	1,197,805	1,122,865	1,098,829	1,223,023
Employee Cost	—	—	—	—
Other Expenses	1,100,029	993,302	965,983	1,074,127
EBITDA	97,776	129,563	132,846	148,896
Depr. & Amortization	30,267	33,156	35,739	36,638
Net Interest	(9,396)	(8,813)	(7,897)	(4,457)
Other Income	21,201	19,487	18,891	17,056
Profit before Tax	76,905	105,219	105,004	116,715
Total Tax	26,085	37,188	35,714	39,403
Profit after Tax	50,820	68,031	69,290	77,311
Ex-Od items / Min. Int.	2,754	543	475	410
Adj. PAT	48,066	67,488	68,815	76,902
Avg. Shares O/S (m)	723.1	723.1	723.1	723.1
EPS (Rs.)	66.5	93.3	95.2	106.4

Cash Flow Abstract (Rs m)

Y/e March	2015	2016E	2017E	2018E
C/F from Operations	276,148	78,913	139,563	132,905
C/F from Investing	(116,983)	(50,112)	(91,474)	(80,176)
C/F from Financing	(147,816)	7,323	(16,733)	(10,294)
Inc. / Dec. in Cash	11,349	36,124	31,356	42,435
Opening Cash	23,113	34,463	70,587	101,943
Closing Cash	34,463	70,587	101,943	144,378
FCFF	204,575	(13,576)	(42,003)	67,275
FCFE	86,767	(6,504)	(21,119)	111,458

Key Financial Metrics

Y/e March	2015	2016E	2017E	2018E
Growth				
Revenue (%)	(8.2)	(18.9)	(3.3)	7.0
EBITDA (%)	4.5	32.5	2.5	12.1
PAT (%)	22.9	40.4	2.0	11.8
EPS (%)	22.9	40.4	2.0	11.8
Profitability				
EBITDA Margin (%)	4.0	6.6	7.0	7.3
PAT Margin (%)	2.0	3.4	3.6	3.8
RoCE (%)	12.0	15.3	13.5	13.4
RoE (%)	22.9	27.5	24.0	23.3
Balance Sheet				
Net Debt : Equity	0.4	0.3	0.2	0.2
Net Wrkng Cap. (days)	(46)	(53)	(61)	(71)
Valuation				
PER (x)	11.6	8.3	8.1	7.3
P / B (x)	2.5	2.1	1.8	1.6
EV / EBITDA (x)	6.7	4.9	4.7	4.2
EV / Sales (x)	0.3	0.3	0.3	0.3
Earnings Quality				
Eff. Tax Rate	33.9	35.3	34.0	33.8
Other Inc / PBT	27.6	18.5	18.0	14.6
Eff. Depr. Rate (%)	5.6	5.4	4.6	4.4
FCFE / PAT	180.5	(9.6)	(30.7)	144.9

Source: Company Data, PL Research.

Balance Sheet Abstract (Rs m)

Y/e March	2015	2016E	2017E	2018E
Shareholder's Funds	225,620	265,480	307,104	352,831
Total Debt	210,177	217,250	238,134	282,317
Other Liabilities	26,331	73,878	80,515	77,676
Total Liabilities	462,128	556,608	625,754	712,823
Net Fixed Assets	448,968	478,667	533,343	575,744
Goodwill	—	—	—	—
Investments	—	—	—	—
Net Current Assets	13,160	77,941	92,411	137,079
<i>Cash & Equivalents</i>	<i>111,581</i>	<i>134,962</i>	<i>167,376</i>	<i>210,948</i>
<i>Other Current Assets</i>	<i>302,517</i>	<i>300,358</i>	<i>279,015</i>	<i>254,645</i>
<i>Current Liabilities</i>	<i>400,937</i>	<i>357,378</i>	<i>353,980</i>	<i>328,514</i>
Other Assets	—	—	—	—
Total Assets	462,128	556,608	625,754	712,823

Quarterly Financials (Rs m)

Y/e March	Q4FY15	Q1FY16	Q2FY16	Q3FY16
Net Revenue	513,461	519,661	464,736	466,666
EBITDA	44,961	38,180	13,321	24,165
<i>% of revenue</i>	<i>8.8</i>	<i>7.3</i>	<i>2.9</i>	<i>5.2</i>
Depr. & Amortization	6,991	5,372	4,172	4,564
Net Interest	(4,429)	(2,153)	(5,791)	(2,035)
Other Income	5,820	3,301	6,865	3,011
Profit before Tax	42,399	34,962	14,941	21,636
Total Tax	13,870	11,200	4,760	6,751
Profit after Tax	28,529	23,762	10,181	14,885
Adj. PAT	28,529	23,762	10,181	14,885

Key Operating Metrics

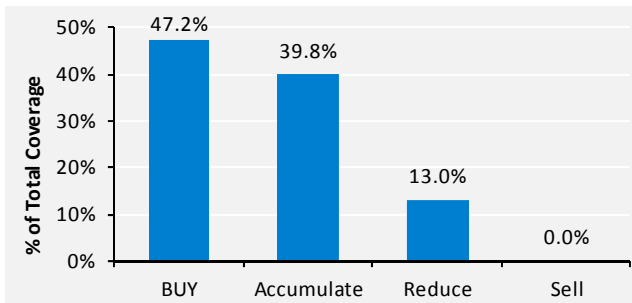
Y/e March	2015	2016E	2017E	2018E
Crude /bbl	85.6	60.0	50.0	50.0
US\$/Rs	61.1	63.0	66.5	67.0
GRM (US\$/bbl)	3.6	4.0	4.0	5.0
Refining volume (MTPA)	23.4	23.5	25.5	28.5
Net subsidy burden (Rs m)	(4,874)	—	—	—

Source: Company Data, PL Research.

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BUY	:	Over 15% Outperformance to Sensex over 12-months
Accumulate	:	Outperformance to Sensex over 12-months
Reduce	:	Underperformance to Sensex over 12-months
Sell	:	Over 15% underperformance to Sensex over 12-months
Trading Buy	:	Over 10% absolute upside in 1-month
Trading Sell	:	Over 10% absolute decline in 1-month
Not Rated (NR)	:	No specific call on the stock
Under Review (UR)	:	Rating likely to change shortly

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