

November 15, 2016

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Rating	BUY
Price	Rs644
Target Price	Rs754
Implied Upside	17.1%
Sensex	26,305
Nifty	8,108

(Prices as on November 15, 2016)

Trading data

Market Cap. (Rs bn)	931.9
Shares o/s (m)	1,446.2
3M Avg. Daily value (Rs m)	1683.5

Major shareholders

Promoters	55.79%
Foreign	22.13%
Domestic Inst.	7.07%
Public & Other	15.01%

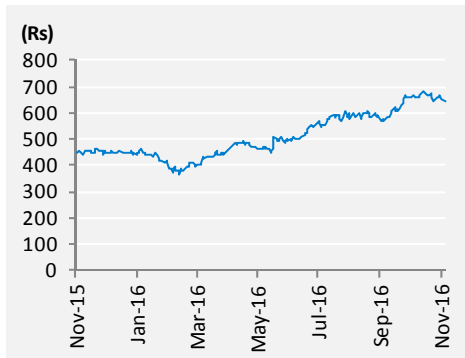
Stock Performance

(%)	1M	6M	12M
Absolute	(3.5)	39.2	42.3
Relative	1.5	36.0	39.6

How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2017	61.4	54.7	12.4
2018	63.9	59.8	6.9

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



Source: Bloomberg

■ **Weak GRMs, marketing inventory losses drag earnings:** BPCL reported Q2FY17 results lower than our estimates; EBITDA at Rs13.8bn (PLe: Rs30.8bn) (+2%YoY, -65%QoQ) and PAT at Rs13.1bn (PLe: Rs19.5bn) (+26%YoY, -50%QoQ). Lower-than-expected earnings were due to **1)** weak GRMs of US\$3.1/bbl (Q1 US\$6.1/bbl) and **2)** marketing inventory loss of Rs3.6bn. We remain positive on OMCs as benign crude price outlook, along with stable refining and marketing margins, are likely to drive earnings.

■ **Lower cracks, project stabilisation hit GRMs:** BPCL's refining margins came in lower than estimates; Q2FY17 GRMs at US\$3.1/bbl (Q1FY17 at US\$6.1/bbl) and was lower than benchmark Singapore GRMs of US\$5/bbl. Refining margins were impacted due to ongoing stabilisation project for Kochi expansion. However, refining thput was strong at 6.39MTPA (6.2MTPA in Q1). GRMs have recovered sharply led by improving diesel and gasoline spreads.

■ **Marketing volumes grows, but lower than industry:** BPCL's Q2FY17 marketing profitability was hit by inventory loss of Rs3.6bn. Also, for Q2, BPCL's diesel and petrol marketing volume grew at 9% YoY and -2.6% YoY, respectively, lower than industry rate of 11.7% and 0.8%YoY, respectively, due to market share loss on bulk diesel to private players. Gross marketing margins for diesel and petrol improved to Rs2.5/2.7/litre vis-a-vis Rs2.3/2.4/litre in Q1FY17. Marketing earnings are expected to remain strong, going forward, due to healthy volume growth and stable margins.

■ **Reiterate "BUY":** We maintain our earnings for FY17/18E, respectively, as healthy refining margins and continued strength in marketing is likely to drive earnings. Reiterate 'BUY' with a revised PT of Rs754 (Rs690 earlier) based on 11x FY18E (10x earlier). We also add the investments at 25% discount to market and add the value of E&P.

Key financials (Y/e March)	2015	2016	2017E	2018E
Revenues (Rs m)	2,425,985	1,886,514	1,928,920	2,106,790
Growth (%)	(8.2)	(22.2)	2.2	9.2
EBITDA (Rs m)	97,776	144,137	147,663	164,962
PAT (Rs m)	48,066	79,815	88,824	92,453
EPS (Rs)	33.2	55.2	61.4	63.9
Growth (%)	(38.5)	66.1	11.3	4.1
Net DPS (Rs)	11.3	15.5	21.2	22.6

Profitability & Valuation	2015	2016	2017E	2018E
EBITDA margin (%)	4.0	7.6	7.7	7.8
RoE (%)	22.9	31.6	29.2	26.0
RoCE (%)	12.0	18.2	16.2	14.3
EV / sales (x)	0.4	0.6	0.5	0.5
EV / EBITDA (x)	10.5	7.5	6.9	6.6
PE (x)	19.4	11.7	10.5	10.1
P / BV (x)	4.1	3.3	2.8	2.4
Net dividend yield (%)	1.7	2.4	3.3	3.5

Source: Company Data; PL Research

Concall highlights

- Lower product cracks, Kochi stabilisation hit refining margins:** BPCL's management clarified that for Q2, Mumbai GRMs were at US\$3.2/bbl, while the Kochi GRMs were at US\$2.9/bbl. Refining margins were hit by lower product cracks and lower spreads from high product inventory for Kochi stabilisation. BPCL expects all units to be commissioned by Q1CY17 and full ramp-up is likely from Q1FY18. BPCL expects higher benefit of US\$1.5-2.5/bbl, post commissioning of the project.
- Bina and Numaligarh margins remain healthy:** For Q2, Bina GRMs were at US\$8/bbl, while Numaligarh GRMs, including excise benefits, were at US\$25/bbl. Q2 PAT for Bina and Numaligarh refineries were Rs530m and Rs3.5bn, respectively.
- Oil bond MTM boosts other income:** BPCL's Q2 other income was at Rs10.2bn (+47%YoY, +180%QoQ). Higher other income was due to mark-to-market gains on oil bonds at Rs2.25bn.

Exhibit 1: Q2FY17 Result Overview (Rs m)

	Q2FY17	Q2FY16	YoY gr. (%)	H1FY17	H1FY16	YoY gr. (%)
Net sales	549,132	525,784	4.4	1,119,290	1,113,968	0.5
Inc/dec in stock	(6,178)	(1,351)	NA	(30,274)	(5,673)	NA
Raw material cons	165,339	168,506	(1.9)	312,797	356,619	(12.3)
Staff cost	6,615	6,119	8.1	13,108	13,045	0.5
Purchases	241,531	248,167	(2.7)	512,297	510,151	0.4
Duties, taxes, etc	102,205	63,033	62.1	202,976	130,506	55.5
Other expenditure	25,806	27,750	(7.0)	55,380	57,701	(4.0)
Exp	(535,318)	(512,224)	NA	(1,066,284)	(1,062,348)	NA
Operating profit	13,814	13,560	1.9	53,006	51,619	2.7
Interest	(1,024)	(1,086)	NA	(2,135)	(2,256)	NA
Depreciation	(4,524)	(4,213)	NA	(8,839)	(9,615)	NA
Other income	10,223	6,943	47.2	13,872	10,240	35.5
Profit before tax	18,489	15,204	21.6	55,904	49,988	11.8
Current tax	(5,437)	(4,859)	NA	(16,647)	(16,037)	NA
Profit after tax	13,052	10,345	26.2	39,257	33,952	15.6

Source: Company Data, PL Research

**Exhibit 2: BPCL volume and margin details**

Crude thrupt (MTPA)	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16
Mumbai	3.4	3.2	3.4	3.5	3.5	3.6
Kochi	2.7	2.7	2.5	2.7	2.7	2.8
GRM (\$/bbl)	8.6	3.9	7.7	6.3	6.1	3.1
Marketing volumes (Tonnes)						
Petrol	1.5	1.5	1.5	1.5	1.6	1.6
Diesel	4.9	4.5	4.9	5.0	5.1	4.4
Kerosene	0.3	0.3	0.3	0.3	0.3	0.2
LPG	1.1	1.1	1.1	1.2	1.2	1.2

Source: Company Data, PL Research

**Income Statement (Rs m)**

Y/e March	2015	2016	2017E	2018E
Net Revenue	2,425,985	1,886,514	1,928,920	2,106,790
Raw Material Expenses	1,228,180	789,419	797,724	829,640
Gross Profit	1,197,805	1,097,095	1,131,196	1,277,150
Employee Cost	—	—	—	—
Other Expenses	1,100,029	952,958	983,533	1,112,188
EBITDA	97,776	144,137	147,663	164,962
Depr. & Amortization	30,267	24,286	27,176	39,006
Net Interest	(9,396)	(6,088)	(12,752)	(10,460)
Other Income	21,201	17,409	21,854	20,889
Profit before Tax	76,905	125,939	133,238	136,416
Total Tax	26,085	41,299	43,939	43,553
Profit after Tax	50,820	84,640	89,299	92,863
Ex-Od items / Min. Int.	2,754	4,825	475	410
Adj. PAT	48,066	79,815	88,824	92,453
Avg. Shares O/S (m)	1,446.2	1,446.2	1,446.2	1,446.2
EPS (Rs.)	33.2	55.2	61.4	63.9

Cash Flow Abstract (Rs m)

Y/e March	2015	2016	2017E	2018E
C/F from Operations	276,148	116,106	201,930	185,527
C/F from Investing	(116,983)	(121,990)	(125,466)	(192,116)
C/F from Financing	(155,047)	17,711	(45,761)	59,635
Inc. / Dec. in Cash	4,118	11,828	30,703	53,046
Opening Cash	23,113	34,463	46,290	76,993
Closing Cash	34,463	46,290	76,993	130,039
FCFF	204,575	35,342	(114,485)	(7,986)
FCFE	86,767	91,434	(147,743)	110,221

Key Financial Metrics

Y/e March	2015	2016	2017E	2018E
Growth				
Revenue (%)	(8.2)	(22.2)	2.2	9.2
EBITDA (%)	4.5	47.4	2.4	11.7
PAT (%)	22.9	66.1	11.3	4.1
EPS (%)	(38.5)	66.1	11.3	4.1
Profitability				
EBITDA Margin (%)	4.0	7.6	7.7	7.8
PAT Margin (%)	2.0	4.2	4.6	4.4
RoCE (%)	12.0	18.2	16.2	14.3
RoE (%)	22.9	31.6	29.2	26.0
Balance Sheet				
Net Debt : Equity	0.4	0.5	0.3	0.4
Net Wrkng Cap. (days)	(46)	(62)	(82)	(101)
Valuation				
PER (x)	19.4	11.7	10.5	10.1
P / B (x)	4.1	3.3	2.8	2.4
EV / EBITDA (x)	10.5	7.5	6.9	6.6
EV / Sales (x)	0.4	0.6	0.5	0.5
Earnings Quality				
Eff. Tax Rate	33.9	32.8	33.0	31.9
Other Inc / PBT	27.6	13.8	16.4	15.3
Eff. Depr. Rate (%)	5.6	4.0	3.1	3.7
FCFE / PAT	180.5	114.6	(166.3)	119.2

Source: Company Data, PL Research.

Balance Sheet Abstract (Rs m)

Y/e March	2015	2016	2017E	2018E
Shareholder's Funds	225,619	280,336	327,421	382,948
Total Debt	210,177	266,268	233,011	351,218
Other Liabilities	26,331	35,496	94,157	105,858
Total Liabilities	462,128	582,100	654,589	840,024
Net Fixed Assets	448,968	546,426	658,694	811,490
Goodwill	—	—	—	—
Investments	—	—	—	—
Net Current Assets	13,160	35,674	(4,106)	28,534
Cash & Equivalents	111,581	123,653	140,378	193,738
Other Current Assets	302,517	262,335	261,354	233,202
Current Liabilities	400,937	350,313	405,838	398,406
Other Assets	—	—	—	—
Total Assets	462,128	582,101	654,589	840,024

Quarterly Financials (Rs m)

Y/e March	Q3FY16	Q4FY16	Q1FY17	Q2FY17
Net Revenue	466,666	441,971	570,158	549,132
EBITDA	24,165	34,896	39,192	13,814
% of revenue	5.2	7.9	6.9	2.5
Depr. & Amortization	4,564	4,435	4,315	4,524
Net Interest	(2,035)	(4,512)	(2,538)	(9,199)
Other Income	3,011	6,946	3,649	10,223
Profit before Tax	21,636	34,973	37,415	18,489
Total Tax	6,751	9,482	11,210	5,437
Profit after Tax	14,885	25,491	26,205	13,052
Adj. PAT	14,885	25,491	26,205	13,052

Key Operating Metrics

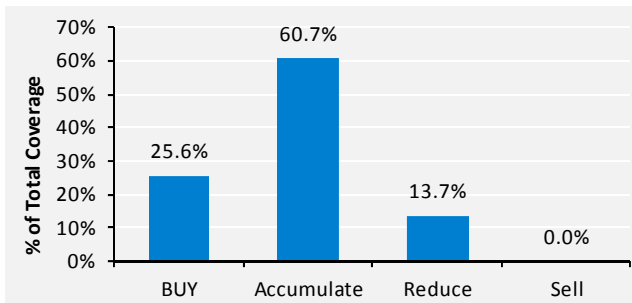
Y/e March	2015	2016	2017E	2018E
Crude /bbl	85.6	47.6	50.0	50.0
US\$/Rs	61.1	65.4	66.5	67.0
GRM (US\$/bbl)	3.6	6.6	4.5	5.5
Refining volume (MTPA)	23.4	24.1	26.0	30.0
Net subsidy burden (Rs m)	(4,874)	—	—	—

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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