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Q4FY20 result review

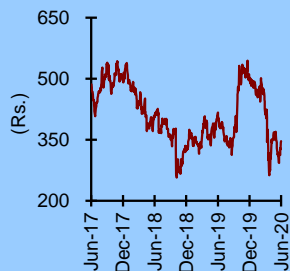
Oil & Gas

Target price: Rs361

Shareholding pattern

	Sep '19	Dec '19	Mar '20
Promoters	53.3	53.0	53.0
Institutional investors	32.5	32.5	31.9
MFs and others	10.7	11.4	12.8
Banks / FIs	0.1	0.1	0.1
Insurance Cos.	7.1	6.9	6.7
FIs	14.6	14.1	12.3
Others	14.2	14.5	15.1

Price chart



Research Analysts:

Vidyadhar Ginde

vidyadhar.ginde@icicisecurities.com
+91 22 6637 7274

Mohit Mehra

mohit.mehra@icicisecurities.com
+91 22 6637 7386

INDIA

Bharat Petroleum Corporation

HOLD

Maintained

Q4 hit by inventory loss; upside from privatisation

Rs348

Bharat Petroleum Corporation (BPCL) was in the red both on consolidated and standalone basis in Q4FY20 and its FY20 consolidated and standalone recurring EPS is down 51-55% YoY, both hit mainly by inventory loss. We expect BPCL's Q1FY21E EPS to be up 122% YoY, despite steep fall in throughput and sales volumes due to lockdown, boosted by record auto fuel marketing margins, YoY higher GRM and inventory gain. However, net marketing margin has turned negative (may remain so unless price hikes are made) and GRM has turned very weak, but large inventory gain in FY21E appears imminent. Upside is likely if privatisation goes through. Retain HOLD until clarity emerges on key issues.

- **Q4FY20 recurring EPS in the red hit by large inventory loss:** BPCL was in the red in Q4FY20 both on standalone and consolidated basis hit by crude and product inventory loss of Rs49bn vs gain of Rs3.56bn in Q4FY19. BPCL has treated inventory loss of Rs10.8bn caused due to valuing at net realisable, which is lower than cost, as an exceptional item. Reported Q4 GRM is down 73% YoY at US\$0.75/bbl, but that excluding inventory impact is up 190% YoY at US\$7.39/bbl. FY20 recurring standalone EPS is down 55% YoY, hit mainly by inventory loss of Rs36.4bn vs gain of Rs10.6bn in FY19. FY20 consolidated recurring EPS is down 51% YoY, but share of profit of equity accounted investee is up 49%.
- **Q1FY21E EPS to surge 122% YoY on record auto fuel marketing margin and inventory gain:** At QTD prices and assuming latest prices sustain through rest of the quarter, we estimate BPCL's Q1FY21 EPS to be up 122% YoY. The main driver of earnings surge would be net auto fuel marketing margin at a record level of Rs5/l (up 2.8x YoY) and GRM including inventory gain at US\$4.6/bbl being up 63% YoY. This will help make up for ~40% YoY decline assumed in sales volumes and 25% YoY decline in crude throughput; BPCL's crude throughput was down 39% YoY in Apr'20 and utilisation was at 77% by 31-May'20.
- **Net marketing margin in the red and GRM very weak:** Net auto fuel marketing margin, which was at Rs8/l in Apr-May'20, has slipped into the red at minus Rs1.28/l in 1-15 Jun'20 and we estimate it at minus Rs2.76/l in 16-30 Jun'20 at latest prices and assuming sales volumes to be down 20% YoY in 1-15 Jun'20 and 15% YoY in 16-30 Jun'20. Unless retail price is hiked significantly, net margin would be in the red in Jun'20. We estimate BPCL's Q1FY21E GRM at US\$4.6/bbl (inventory gain of US\$2.2/bbl) but at just US\$0.5/bbl at latest cracks and crude spread.
- **Marketing margin and GRM recovery key to outlook; privatisation may provide upside:** Q1FY21E earnings outlook is good, but outlook for rest of FY21 would depend on whether adequate retail price hike is made and GRM recovers. We remain optimistic on retail price hikes as auto fuel marketing margins being at healthy level is crucial for success of BPCL's privatisation (last date for expression of interest for buying Govt's stake in BPCL is 31-Jul'20). Downside to FY21E core GRM of US\$4.5/bbl is not ruled out, but that including inventory gain would be in line with our estimate, or higher. Target price remains unchanged at Rs361 (4% upside). We retain **HOLD** until clarity emerges on retail price hikes, GRM outlook and how privatisation pans out.

Market Cap	Rs757bn/US\$10.1bn	Year to Mar	FY19	FY20	FY21E	FY22E
Reuters/Bloomberg	BPCL.BO/BPCL IN	Revenue (Rs mn)	34,08,792	32,97,972	21,73,650	24,76,500
Shares Outstanding (mn)	2,169.2	Net Income (Rs mn)	78,023	37,360	60,549	74,053
52-week Range (Rs)	545/263	EPS (Rs)	39.7	16.8	30.8	37.6
Free Float (%)	46.7	% Chg YoY	-13.4%	-57.7%	83.5%	22.3%
FII (%)	12.3	P/E (x)	9.0	21.2	11.5	9.4
Daily Volume (US\$'000)	43,157	CFPS (Rs)	56.0	35.7	52.1	59.3
Absolute Return 3m (%)	(12.8)	EV/E (x)	7.4	20.1	8.5	7.4
Absolute Return 12m (%)	(9.0)	Dividend Yield (%)	4%	1%	2%	3%
Sensex Return 3m (%)	(11.4)	RoCE (%)	15%	5%	10%	11%
Sensex Return 12m (%)	(14.3)	RoE (%)	21%	10%	15%	15%

Please refer to important disclosures at the end of this report

Table 1: BPCL's Q4FY20 standalone recurring in the red due to large crude and product inventory loss Q4FY20

(Rs mn)	Q4FY20A	Q4FY19	Change	FY20	FY19	Change	Q3FY20	Change
Net sales	812,962	839,417	-3%	3,275,808	3,374,953	-3%	853,683	-5%
Total expenditure	819,151	791,640	3%	3,209,415	3,256,856	-1%	826,650	-1%
EBDITA	-6,188	47,777	NM	66,393	118,097	-44%	27,034	NM
EBITDA margin	-0.8%	5.7%		2.0%	3.5%		3.2%	
Interest	5,786	3,253	78%	21,819	12,917	69%	5,121	13%
Depreciation	9,474	9,149	4%	37,869	31,893	19%	9,731	-3%
Other Income	11,568	10,576	9%	30,813	31,108	-1%	5,148	125%
PBT	-9,880	45,951	NM	37,519	104,396	-64%	17,330	NM
Current tax	-4,930	9,480	0%	2,010	20,790	0%	1,640	0%
Deferred tax	-4,073	5,635	0%	4,007	13,165	0%	3,710	0%
Tax	-9,003	15,115	NM	6,017	33,955	-82%	5,350	NM
Recurring PAT	-877	30,837	NM	31,502	70,441	-55%	11,980	NM
Add:								
Extraordinary items	-12,733	413	NM	-4,670	879	NM	626	NM
Reported PAT	-13,610	31,249	NM	26,832	71,320	-62%	12,606	NM
Recurring EPS	(0.4)	15.7	NM	16.0	35.8	-55%	6.1	NM
Reported EPS	(6.9)	15.9	NM	13.6	36.3	-62%	6.4	NM

Source: Company data, I-Sec research

Table 2: Q4FY20 EBITDA in the red due to large crude and product inventory loss Q4FY20

(Rs mn)	Q4FY20A	Q4FY19	Change	FY20	FY19	Change	Q3FY20	Change
Refining	-6,472	2,349	NM	5,060	37,964	-87%	4,536	NM
Inventory gains/losses	-19,370	2,720	NM	-18,330	1,740	NM	820	NM
Marketing	19,653	42,708	-54%	79,663	78,393	2%	21,678	-9%
EBITDA	-6,188	47,777	NM	66,393	1,18,097	-44%	27,034	NM
Key variables:								
Reported GRM (US\$/bbl)	0.8	2.7	-73%	2.5	4.6	-45%	3.2	-77%
Refining inventory gain (US\$/bbl)	(6.6)	0.2	NM	(1.8)	0.6	NM	1.0	NM
GRM net of inventory (US\$/bbl)	7.4	2.6	190%	4.30	4.0	7%	2.2	236%
Crude throughput (MMT)	8.4	8.2	2%	31.9	31.0	3%	8.4	0%
Domestic sales (MMT)	10.7	11.4	-5%	43.1	43.1	0%	11.0	-3%
Brent (US\$/bbl)	51.7	67.7	-24%	60.9	70.2	-13%	62.6	-17%
Exchange rate (US\$/Rs)	72.4	72.1	0%	70.9	69.9	1%	71.2	2%

Source: Company data, I-Sec research

Table 3: BPCL's Q4FY20 consolidated recurring EPS in the red due to large crude and product inventory loss Q4FY20

(Rs mn)	Q4FY20A	Q4FY19	Change	FY20	FY19	Change	Q3FY20	Change
Net sales	818,296	847,919	-3%	3,297,972	3,408,792	-3%	859,267	-5%
Total expenditure	824,095	787,424	5%	3,214,481	3,254,770	-1%	828,283	-1%
EBDITA	-5,798	60,495	NM	83,490	154,022	-46%	30,984	NM
EBITDA margin	-0.7%	7.1%		2.5%	4.5%		3.6%	
Interest	6,895	6,257	10%	26,370	19,890	33%	6,257	10%
Depreciation	10,434	10,422	0%	40,801	34,826	17%	10,422	0%
Other Income	4,012	5,713	-30%	19,293	20,375	-5%	5,685	-29%
PBT	-19,116	49,529	NM	35,613	119,681	-70%	19,991	NM
Profit share of associate	2,630	89	2852%	14,007	9,373	49%	4,349	-40%
Current tax	-4,845	12,273	NM	6,300	31,092	-80%	1,505	NM
Deferred tax	-8,315	6,554	NM	-145	13,675	-101%	2,947	NM
Tax	-13,160	18,827	NM	6,155	44,767	-86%	4,452	NM
Non controlling interest	278	2,196		6,104	7,256		2,751	
Recurring PAT	-3,604	28,595	NM	37,360	77,031	-51%	17,137	NM
Add: Extraordinary items	-14,870	526	NM	-6,807	992	NM	626	NM
Reported PAT	-18,474	29,120	NM	30,554	78,023	-61%	17,764	NM
Recurring EPS	(1.83)	14.5	NM	19.0	39.2	-51%	8.7	NM
Reported EPS	-9.39	14.81	NM	15.5	39.7	-61%	9.0	NM

Source: Company data, I-Sec research

Financial summary

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

	FY19	FY20	FY21E	FY22E
Op. Income (Sales)	34,08,792	32,97,972	21,73,650	24,76,500
Operating Expenses	28,56,379	32,14,481	20,30,923	23,12,679
EBITDA	1,51,122	83,490	1,42,727	1,63,821
<i>% margins</i>	4.4%	2.5%	6.6%	6.6%
Depreciation & Amortisation	-34,178	-40,801	-43,619	-46,237
Gross Interest	-17,640	-26,370	-32,900	-34,163
Other Income	20,375	19,293	16,278	13,703
Recurring PBT	1,19,681	35,613	82,487	97,125
Less: Taxes	75,905	29,458	58,858	70,408
Net Income (Reported)	78,023	37,360	60,549	74,053
Recurring Net Income	78,023	30,554	60,549	74,052

Source: Company data, I-Sec research

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

	FY19	FY20	FY21E	FY22E
Assets				
Total Current Assets	5,41,907	3,97,244	4,29,021	4,49,384
<i>of which cash & cash eqv.</i>	6,625	11,648	82,725	80,997
Total Current Liabilities & Provisions	4,63,891	4,44,628	3,88,442	4,23,939
Net Current Assets	78,016	-47,384	40,579	25,445
Investments	1,91,078	1,05,109	1,16,335	1,16,336
Net Fixed Assets	5,56,764	8,17,067	6,90,467	6,92,344
<i>Capital Work-in-Progress</i>	72,929	1,77,567	1,64,814	2,39,814
Total Assets	9,05,413	10,64,008	10,94,920	11,54,935
Liabilities				
Borrowings	4,29,145	6,16,482	5,40,190	5,55,190
Equity Share Capital	19,669	19,669	19,669	19,669
<i>Face Value per share (Rs)</i>	10.0	10.0	10.0	10.0
Reserves & Surplus	3,22,842	2,98,029	3,88,734	4,22,066
Net Worth	3,87,647	3,65,323	4,60,417	5,01,100
Total Liabilities	9,05,413	10,64,008	10,94,921	11,54,935

Source: Company data, I-Sec research

Table 6: Quarterly trend
(Rs bn, year ending March 31)

	Jun'19	Sep'19	Dec'19	Mar'20
Net sales	858.6	743.1	853.7	813.0
<i>% growth (YoY)</i>	4	(10)	(3)	(3)
EBITDA	21.8	16.3	27.0	(6.2)
EBITDA Margin (%)	2.5	2.2	31.7	(7.6)
Other income	5.4	8.7	5.1	11.6
Extraordinary items	-	7.4	0.6	(12.7)
Net profit	10.8	9.6	12.0	(0.9)

Source: Company data, I-Sec research

Table 7: Cashflow statement
(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
Operating Cashflow	1,10,083	70,259	1,02,477	1,16,645
Working Capital Changes	61,650	(1,25,400)	87,963	(15,134)
Operating Cashflow	48,433	1,95,659	14,515	1,31,779
Capital Commitments	(57,056)	(2,21,262)	(38,311)	(1,26,067)
Cashflow from Investing Activities	(4,065)	(1,35,293)	(49,537)	(1,26,067)
Inc (Dec) in Borrowings	59,172	1,87,337	(76,292)	15,000
Dividend paid	28,830	6,653	17,741	19,959
Cashflow from Financing Activities	30,343	1,80,684	(94,033)	(4,959)
Chg. in Cash & Bank balances	74,710	2,41,049	(1,29,056)	753

Source: Company data, I-Sec research

Table 8: Key ratios
(Year ending March 31)

	FY19	FY20	FY21E	FY22E
Per Share Data (Rs)				
EPS (Basic Recurring)*	39.7	16.8	30.8	37.6
Diluted Recurring EPS	39.7	16.8	30.8	37.6
Recurring Cash flow per share	56.0	35.7	52.1	59.3
Dividend per share (DPS)	13.0	3.0	8.0	9.0
Book Value per share (BV)	197.1	185.7	234.1	254.8
Growth Ratios (%)				
Operating Income	22.0	-3.3	-34.1	13.9
EBITDA	-0.4	-44.8	71.0	14.8
Recurring Net Income	-13.4	-60.8	98.2	22.3
Diluted Recurring EPS	-13.4	-57.7	83.5	22.3
Cash flow per share	-3.3	-36.2	45.9	13.8
Valuation Ratios (x)				
P/E	9.0	21.2	11.5	9.4
P/CEPS	6.4	9.9	6.8	6.0
P/BV	1.8	1.9	1.5	1.4
EV / EBITDA	7.4	20.1	8.5	7.4
EV / Operating Income	5.8	7.4	20.1	8.5
Operating Ratios				
Other Income / PBT (%)	17.0	54.2	19.7	14.1
Effective Tax Rate (%)	36.6	17.3	28.6	27.5
NWC / Total Assets (%)	8.6	-4.5	3.7	2.2
D/E Ratio (%)	110.7	168.7	117.3	110.8
Return/Profitability Ratios (%)	2.3	0.9	2.8	3.0
Recurring Net Income Margins	15.1	4.7	10.0	11.4
RoCE	20.7	9.9	14.7	15.4
RoNW	35.9	30.5	34.2	33.2
Dividend Payout Ratio	3.7	0.8	2.3	2.5
Dividend Yield	4.4	2.5	6.6	6.6
EBITDA Margins	5.4	4.4	3.9	5.4

*EPS calculated net of treasury shares as per Ind AS regulation

Source: Company data, I-Sec research

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