

**BPCL**

Refer to important disclosures at the end of this report

## Core GRMs lower than peers on shutdown

- Bharat Petroleum (BPCL) reported EBITDA/PAT of Rs783mn/Rs4.95bn for Q3FY19, which came in Rs1bn/Rs1.7bn higher than our estimates on better GRMs/lower tax rate (16%). Core EBITDA/PAT/EPS were better at Rs34.1bn/Rs21.9bn/Rs11.1. The inventory loss stood at Rs33.3bn.
- Reported GRM of USD2.8/bbl had Rs12.9bn of inventory loss, implying a core GRM of USD6/bbl, better than our USD4.3 estimate but lower than peers, likely due to Kochi shutdown and Mumbai HCU outage. Marketing margin fell 2 qoq to Rs4.9/kg, up 34% yoy.
- We believe that after elections, marketing pricing power should improve, though refining would be volatile. Key positives are Kochi refinery normalizing and petchem adding up (the latter, we have not factored in). We raise our FY19E EPS by 3%, but are lowering target EV/EBITDA. We cut our target price by 3% to Rs375 and downgrade BPCL to Accumulate.

- **Key highlights:** BPCL suffered Rs12.9bn/Rs20.4bn of refining/marketing inventory losses, while forex gains were Rs6.6bn. Refining throughput was down 1% qoq due to Kochi IREP turnaround. Overall marketing volumes grew 2% yoy to 10.7mmt, with domestic flat yoy. Petrol volumes were up 6% yoy, while diesel was flat yoy; petrol sales growth was in line/weaker vs. HP/IOCL. Other expenditure rose 3% qoq, while employee costs fell by 16%. Interest cost was up 3% qoq to Rs3.4bn, whereas other income jumped to Rs9.7bn, likely due to dividends. Gross debt fell from Rs239.6bn as of Q2-end to Rs227.7bn at Q3-end, while capex for Q3/9M was Rs26bn/Rs72bn. Depreciation increased 3% qoq. Kerosene under-recovery in Q3 stood at Rs2.7bn, which was fully compensated. The board declared an interim dividend of Rs11/share.
- **Management guidance:** Capex guidance for FY19/20 is Rs74bn/Rs79bn. The Mumbai refinery HCU has started from shutdown in January.
- **Valuation and outlook:** We share a similar view on all three OMCs as after elections, marketing pricing power should improve though refining would be volatile. We reduce our GRM assumption for BPCL to USD4.7/USD5.8 for FY20/21 but raise marketing margins based on 9MFY19 rate. Our FY20/21 EPS remain largely unchanged. We reduce our target EV/EBITDA multiples, but compared with IOCL/HPCL are 4-5% higher, due to drivers like petchem, which we have not built. We value BPCL's refining/pipeline/marketing segments at 5.8/7.3/6.8x FY21E EV/EBITDA, while Rs85 comes from investments in listed entities, BORL, NRL and upstream. We downgrade BPCL to Accumulate from Buy, with a TP of Rs375 (11% upside).

### Financial Snapshot (Standalone)

(Rs mn)	FY17	FY18	FY19E	FY20E	FY21E
Revenue	2,021,356	2,363,131	3,026,755	2,588,897	2,420,160
EBITDA	110,527	116,776	115,500	99,717	116,123
EBITDA Margin (%)	5.5	4.9	3.8	3.9	4.8
APAT	82,316	79,281	74,898	59,150	69,147
EPS (Rs)	40.9	40.3	31.9	30.1	35.2
EPS (% chg)	13.9	(1.5)	(20.8)	(5.7)	16.9
ROE (%)	28.9	24.8	20.8	15.0	16.0
P/E (x)	8.3	8.4	10.6	11.2	9.6
EV/EBITDA (x)	6.8	6.2	6.0	6.9	5.7
P/BV (x)	2.2	1.9	1.8	1.6	1.5

Source: Company, Emkay Research

<b>CMP</b> Rs 337 as of (February 8, 2019)	<b>Target Price</b> Rs 375 (▼) 12 months
<b>Rating</b> ACCUMULATE (▼)	<b>Upside</b> 11.2 %

### Change in Estimates

EPS Chg FY19E/FY20E (%)	3/1
Target Price change (%)	(2.6)
Target Period (Months)	12
Previous Reco	BUY

### Emkay vs Consensus

EPS Estimates		
	FY19E	FY20E
Emkay	31.9	30.1
Consensus	28.1	36.6
Mean Consensus TP (12M)	Rs 364	

### Stock Details

Bloomberg Code	BPCL IN
Face Value (Rs)	10
Shares outstanding (mn)	2,169
52 Week H/L	494 / 239
M Cap (Rs bn/USD bn)	732 / 10.28
Daily Avg Volume (nos.)	4,770,787
Daily Avg Turnover (US\$ mn)	22.6

### Shareholding Pattern Dec '18

Promoters	53.9%
FIIIs	14.6%
DIIIs	15.9%
Public and Others	15.6%

### Price Performance

(%)	1M	3M	6M	12M
<b>Absolute</b>	(4)	17	(13)	(29)
<b>Rel. to Nifty</b>	(5)	13	(9)	(32)

### Relative price chart



Source: Bloomberg

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## Exhibit 1: Actual vs. Estimates (Q3FY19)

Rs bn	Actual	Estimate (Emkay)	Consensus Estimate (Bloomberg)	Variation		Comment
				Emkay	Consensus	
Total Revenue	791.69	710.71	706.60	11%	12%	
EBITDA	0.78	(0.33)	4.04	NM	NM	Higher than expected GRMs
EBITDA Margin (%)	0%	0%	1%	15 bps	NM	
Adjusted Net Profit	4.95	3.23	(0.14)	53%	NM	PAT higher due to lower tax rate

Source: Company, Emkay Research

## Exhibit 2: Detailed Quarterly Highlights

Rs mn	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	YoY	QoQ	9MFY18	9MFY19	YoY
Revenue	606,164	652,393	716,967	722,918	791,688	31%	10%	1,710,738	2,231,574	30%
COGS	530,337	568,326	623,230	640,933	742,737	40%	16%	1,504,181	2,006,899	33%
Gross Profit	75,827	84,067	93,737	81,985	48,952	-35%	-40%	206,557	224,675	9%
Opex	43,944	45,631	47,935	48,489	48,169	10%	-1%	126,204	144,592	15%
Total Expenditure	574,281	613,958	671,165	689,421	790,905	38%	15%	1,630,385	2,151,491	32%
EBITDA	31,882	38,436	45,803	33,497	783	-98%	-98%	80,353	80,083	0%
Depreciation	6,774	7,413	7,392	7,571	7,781	15%	3%	19,072	22,744	19%
Interest	2,002	2,194	3,018	3,276	3,369	68%	3%	6,139	9,664	57%
Other Income	5,554	8,329	5,480	5,380	9,672	74%	80%	19,767	20,532	4%
Forex Gain/(Losses)	1,720	(1,220)	(7,050)	(9,302)	6,590	283%	NM	1,132	(9,762)	NM
PBT	30,380	35,939	33,823	18,727	5,895	-81%	-69%	76,042	58,445	-23%
Tax	8,943	9,202	10,890	6,540	944	-89%	-86%	23,585	18,374	-22%
PAT	21,437	26,736	22,933	12,187	4,951	-77%	-59%	52,457	40,071	-24%
Adjusted PAT	21,437	26,736	22,933	12,187	4,951	-77%	-59%	52,457	40,071	-24%
Adjusted EPS (Rs)	10.9	13.6	11.7	6.2	2.5	-77%	-59%	26.7	20.4	-24%
Tax Rate	29%	26%	32%	35%	16%	-46%	-54%	31%	31%	1%
Core EBITDA	15,922	33,956	19,013	19,147	34,113	114%	78%	70,847	72,273	2%
Core PAT	8,509	21,895	9,436	9,165	21,865	157%	139%	43,820	40,466	-8%
Core EPS (Rs)	4.3	11.1	4.8	4.7	11.1	157%	139%	22.3	20.6	-8%
Refining Volumes (mmt)	7.3	7.9	7.7	7.6	7.5	3%	-1%	20.7	22.8	10%
Reported GRM (\$/bbl)	7.9	6.5	7.5	5.6	2.8	-65%	-50%	7.0	5.3	-24%
Core GRM (\$/bbl)	4.9	5.6	4.1	3.3	6.1	24%	86%	6.0	4.5	-26%
Adjusted Refining EBITDA	16,100	14,002	17,880	10,768	(44)	NM	NM	38,030	28,604	-25%
Marketing Volumes (mmt)	11.2	11.1	11.3	10.6	11.5	2%	8%	32.1	33.3	4%
Diesel	5.2	5.1	5.4	4.7	5.2	0%	11%	15.0	15.2	2%
Petrol	1.7	1.7	1.9	1.8	1.9	6%	2%	5.2	5.5	6%
Marketing Margin (Rs/mt)	3,684	5,163	4,376	5,016	4,933	34%	-2%	4,149	4,771	15%
Adjusted Marketing EBITDA	14,082	22,541	25,965	20,824	(1,042)	NM	NM	37,277	45,747	23%
Marketing Inventory Gain/(Losses)	5,650	1,020	14,040	5,390	(20,410)	NM	NM	186	(980)	NM
Pipeline Volumes (mmt)	3.4	3.4	3.8	3.5	3.7	10%	6%	9.6	11.0	14%
Implied Pipeline EBITDA	1,530	1,703	1,762	1,714	1,682	10%	-2%	4,541	5,158	14%
Gross Debt	158,650	233,507	196,830	239,550	227,670	44%	-5%	158,650	227,670	44%
Implied Net Debt	89,495	178,796	133,295	166,674	153,700	72%	-8%	89,495	153,700	72%

Source: Company, Emkay Research

**Exhibit 3: Revised Estimates**

Rs. Bn	FY19E			FY20E			FY21E		
	Previous	Revised	Variance	Previous	Revised	Variance	Previous	Revised	Variance
Revenue	3,301.2	3,026.8	-8%	3,266.9	2,588.9	-21%	3,225.8	2,420.2	-25%
EBITDA	119.1	115.5	-3%	101.0	99.7	-1%	118.5	116.1	-2%
EBITDA Margins	4%	4%	21 bps	3%	4%	76 bps	4%	5%	113 bps
PAT	60.6	62.7	3%	58.8	59.2	1%	69.2	69.1	0%
EPS	30.8	31.9	3%	29.9	30.1	1%	35.2	35.2	0%

Source: Company, Emkay Research

**Exhibit 4: Core Business Valuation**

FY21 Estimates (Rs.bn)	EBITDA	Multiple (x)	EV	EV/Share
Refining	63	5.8	360	183
Pipelines	7	7.3	52	26
Petrochemicals	-	-	-	-
Marketing	46	6.8	313	159
<b>Total EV</b>			<b>725</b>	<b>368</b>
Less: Net Debt (FY20 End)			153	78
<b>Fair Value/M-Cap</b>			<b>571</b>	<b>290</b>
No. Of Shares O/S bn)			2.0	

Source: Company, Emkay Research

**Exhibit 5: Investments**

Rs/sh/mn	Shares (mn)	Price	Value
IGL	158	285	44,888
Petronet LNG	188	225	42,188
Oil India	27	170	4,548
BORL at 9x PE		Rs 8bn Gross PAT	51,840
NRL at 7.5x PE		Rs 15bn Gross PAT	69,750
Upstream		At 0.5x BV	24,712
<b>Total</b>			<b>237,925</b>
<b>Value/Sh at 30% Haircut</b>			<b>85</b>

Source: Company, Emkay Research

**Exhibit 6: SOTP Valuation**

Rs/sh	Value
EV/EBITDA	290
Investments	85
<b>Target Price</b>	<b>375</b>

Source: Company, Emkay Research

**Key Financials (Standalone)****Income Statement**

Y/E Mar (Rs mn)	FY17	FY18	FY19E	FY20E	FY21E
<b>Revenue</b>	<b>2,021,356</b>	<b>2,363,131</b>	<b>3,026,755</b>	<b>2,588,897</b>	<b>2,420,160</b>
<b>Expenditure</b>	<b>1,910,828</b>	<b>2,246,355</b>	<b>2,911,255</b>	<b>2,489,180</b>	<b>2,304,037</b>
<b>EBITDA</b>	<b>110,527</b>	<b>116,776</b>	<b>115,500</b>	<b>99,717</b>	<b>116,123</b>
Depreciation	18,913	26,485	29,944	33,543	37,064
<b>EBIT</b>	<b>91,614</b>	<b>90,291</b>	<b>85,556</b>	<b>66,174</b>	<b>79,059</b>
Other Income	25,695	30,109	32,097	34,451	36,492
Interest expenses	4,959	8,333	12,568	12,995	13,110
<b>PBT</b>	<b>112,351</b>	<b>112,068</b>	<b>105,086</b>	<b>87,630</b>	<b>102,440</b>
Tax	30,035	32,787	30,188	28,480	33,293
Extraordinary Items	(1,923)	(88)	(12,200)	0	0
Minority Int./Income from Assoc.	0	0	0	0	0
<b>Reported Net Income</b>	<b>80,393</b>	<b>79,193</b>	<b>62,698</b>	<b>59,150</b>	<b>69,147</b>
<b>Adjusted PAT</b>	<b>82,316</b>	<b>79,281</b>	<b>74,898</b>	<b>59,150</b>	<b>69,147</b>

**Balance Sheet**

Y/E Mar (Rs mn)	FY17	FY18	FY19E	FY20E	FY21E
Equity share capital	13,113	19,669	19,669	19,669	19,669
Reserves & surplus	283,571	321,851	358,216	392,523	432,629
<b>Net worth</b>	<b>296,684</b>	<b>341,520</b>	<b>377,885</b>	<b>412,192</b>	<b>452,297</b>
<b>Minority Interest</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Loan Funds</b>	<b>233,044</b>	<b>235,514</b>	<b>235,554</b>	<b>230,595</b>	<b>220,637</b>
Net deferred tax liability	35,017	49,533	57,783	66,115	74,531
<b>Total Liabilities</b>	<b>564,745</b>	<b>626,567</b>	<b>671,222</b>	<b>708,902</b>	<b>747,466</b>
<b>Net block</b>	<b>314,373</b>	<b>429,779</b>	<b>486,873</b>	<b>516,610</b>	<b>544,323</b>
<b>Investment</b>	<b>147,634</b>	<b>174,373</b>	<b>176,616</b>	<b>178,891</b>	<b>180,680</b>
<b>Current Assets</b>	<b>341,664</b>	<b>353,999</b>	<b>469,185</b>	<b>407,333</b>	<b>407,188</b>
Cash & bank balance	647	881	26,372	23,117	45,332
Other Current Assets	52,687	34,966	35,316	35,669	36,026
<b>Current liabilities &amp; Provision</b>	<b>355,152</b>	<b>375,659</b>	<b>483,489</b>	<b>416,190</b>	<b>407,206</b>
<b>Net current assets</b>	<b>(13,487)</b>	<b>(21,660)</b>	<b>(14,305)</b>	<b>(8,857)</b>	<b>(19)</b>
Misc. exp	0	0	0	0	0
<b>Total Assets</b>	<b>564,745</b>	<b>626,567</b>	<b>671,222</b>	<b>708,902</b>	<b>747,466</b>

**Cash Flow**

Y/E Mar (Rs mn)	FY17	FY18	FY19E	FY20E	FY21E
<b>PBT (Ex-Other income) (NI+Dep)</b>	<b>86,655</b>	<b>81,959</b>	<b>72,989</b>	<b>53,179</b>	<b>65,948</b>
Other Non-Cash items	7,136	6,275	(12,200)	0	0
Chg in working cap	(26,111)	22,922	26,386	(371)	21,793
<b>Operating Cashflow</b>	<b>78,819</b>	<b>89,747</b>	<b>99,539</b>	<b>70,907</b>	<b>104,664</b>
Capital expenditure	(90,791)	(69,741)	(65,000)	(63,500)	(65,000)
<b>Free Cash Flow</b>	<b>(11,971)</b>	<b>20,006</b>	<b>34,539</b>	<b>7,407</b>	<b>39,664</b>
Investments	(18,653)	(26,739)	(2,243)	(2,276)	(1,789)
Other Investing Cash Flow	(20,763)	18,896	0	0	0
<b>Investing Cashflow</b>	<b>(104,512)</b>	<b>(47,475)</b>	<b>(35,146)</b>	<b>(31,325)</b>	<b>(30,297)</b>
Equity Capital Raised	6,556	6,556	0	0	0
Loans Taken / (Repaid)	73,161	2,471	40	(4,959)	(9,958)
Dividend paid (incl tax)	(61,119)	(33,053)	(26,333)	(24,843)	(29,042)
Other Financing Cash Flow	(7,974)	(9,680)	(40)	(41)	(42)
<b>Financing Cashflow</b>	<b>5,666</b>	<b>(42,038)</b>	<b>(38,901)</b>	<b>(42,839)</b>	<b>(52,152)</b>
<b>Net chg in cash</b>	<b>(20,027)</b>	<b>234</b>	<b>25,492</b>	<b>(3,256)</b>	<b>22,215</b>
Opening cash position	20,674	647	881	26,372	23,117
<b>Closing cash position</b>	<b>647</b>	<b>880</b>	<b>26,372</b>	<b>23,117</b>	<b>45,332</b>

Source: Company, Emkay Research

**Key Ratios**

<b>Profitability (%)</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19E</b>	<b>FY20E</b>	<b>FY21E</b>
EBITDA Margin	5.5	4.9	3.8	3.9	4.8
EBIT Margin	4.5	3.8	2.8	2.6	3.3
Effective Tax Rate	26.7	29.3	28.7	32.5	32.5
Net Margin	4.1	3.4	2.5	2.3	2.9
ROCE	22.9	20.2	18.1	14.6	15.9
ROE	28.9	24.8	20.8	15.0	16.0
RoIC	37.9	25.5	20.0	14.2	16.1

<b>Per Share Data (Rs)</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19E</b>	<b>FY20E</b>	<b>FY21E</b>
EPS	40.9	40.3	31.9	30.1	35.2
CEPS	51.5	53.8	53.3	47.1	54.0
BVPS	150.8	173.6	192.1	209.6	230.0
DPS	21.7	21.5	11.2	10.5	12.3

<b>Valuations (x)</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19E</b>	<b>FY20E</b>	<b>FY21E</b>
PER	8.3	8.4	10.6	11.2	9.6
P/CEPS	6.6	6.3	6.3	7.2	6.2
P/BV	2.2	1.9	1.8	1.6	1.5
EV / Sales	0.4	0.3	0.2	0.3	0.3
EV / EBITDA	6.8	6.2	6.0	6.9	5.7
Dividend Yield (%)	6.4	6.4	3.3	3.1	3.6

<b>Gearing Ratio (x)</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19E</b>	<b>FY20E</b>	<b>FY21E</b>
Net Debt/ Equity	0.3	0.2	0.1	0.1	0.0
Net Debt/EBIDTA	0.8	0.5	0.3	0.3	0.0
Working Cap Cycle (days)	22.6	19.0	19.0	19.0	15.8

<b>Growth (%)</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19E</b>	<b>FY20E</b>	<b>FY21E</b>
Revenue	7.8	16.9	28.1	(14.5)	(6.5)
EBITDA	3.2	5.7	(1.1)	(13.7)	16.5
EBIT	3.3	(1.4)	(5.2)	(22.7)	19.5
PAT	13.9	(1.5)	(20.8)	(5.7)	16.9

<b>Quarterly (Rs mn)</b>	<b>Q3FY18</b>	<b>Q4FY18</b>	<b>Q1FY19</b>	<b>Q2FY19</b>	<b>Q3FY19</b>
Revenue	606,164	652,393	716,967	722,918	791,688
EBITDA	31,882	38,436	45,803	33,497	783
<b>EBITDA Margin (%)</b>	<b>5.3</b>	<b>5.9</b>	<b>6.4</b>	<b>4.6</b>	<b>0.1</b>
PAT	21,437	26,736	22,933	12,187	4,951
<b>EPS (Rs)</b>	<b>10.9</b>	<b>13.6</b>	<b>11.7</b>	<b>6.2</b>	<b>2.5</b>

Source: Company, Emkay Research

<b>Shareholding Pattern (%)</b>	<b>Dec-17</b>	<b>Mar-18</b>	<b>Jun-18</b>	<b>Sep-18</b>	<b>Dec-18</b>
Promoters	54.3	54.3	53.9	53.9	53.9
FIs	22.1	19.8	17.0	16.9	14.6
DIs	8.5	10.0	13.6	13.7	15.9
Public and Others	15.2	15.9	15.5	15.4	15.6

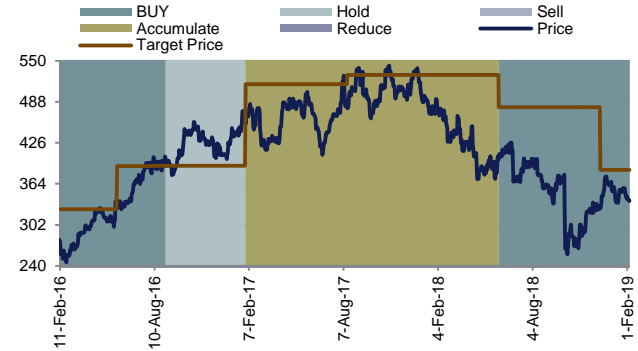
Source: Capitaline

## RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
28-Jan-19	349	385	12m	Buy	Sabri Hazarika
31-Dec-18	363	385	12m	Buy	Sabri Hazarika
11-Dec-18	327	385	12m	Buy	Sabri Hazarika
4-Sep-18	351	480	12m	Buy	Sabri Hazarika
13-Jul-18	387	480	12m	Buy	Sabri Hazarika
8-Jun-18	410	480	12m	Buy	Sabri Hazarika
31-May-18	404	480	12m	Buy	Sabri Hazarika
15-Nov-17	505	529	12m	Accumulate	Dhaval Joshi
14-Aug-17	478	529	12m	Accumulate	Dhaval Joshi
31-May-17	495	515	12m	Accumulate	Dhaval Joshi
15-Feb-17	450	515	12m	Accumulate	Dhaval Joshi
31-Jan-17	454	515	12m	Accumulate	Dhaval Joshi
16-Nov-16	423	391	12m	Hold	Dhaval Joshi
29-Sep-16	407	391	12m	Hold	Dhaval Joshi
6-Sep-16	399	391	12m	Hold	Dhaval Joshi
1-Sep-16	391	391	12m	Hold	Dhaval Joshi
8-Aug-16	405	391	12m	Buy	Dhaval Joshi
2-Jun-16	334	391	12m	Buy	Dhaval Joshi
30-May-16	333	391	12m	Buy	Dhaval Joshi
12-Feb-16	258	325	12m	Buy	Dhaval Joshi

Source: Company, Emkay Research

## RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

## Emkay Rating Distribution

BUY	Expected total return (%) (Stock price appreciation and dividend yield) of over 25% within the next 12-18 months.
ACCUMULATE	Expected total return (%) (Stock price appreciation and dividend yield) of over 10% within the next 12-18 months.
HOLD	Expected total return (%) (Stock price appreciation and dividend yield) of upto 10% within the next 12-18 months.
REDUCE	Expected total return (%) (Stock price depreciation) of upto (-) 10% within the next 12-18 months.
SELL	The stock is believed to underperform the broad market indices or its related universe within the next 12-18 months.

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A handwritten signature in black ink, appearing to read 'Sabri Hazarika', with a long horizontal stroke extending to the right.

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