

Bharat Petroleum Corporation

9 August 2018

Reuters: BPCL.NS; Bloomberg: BPCL IN

Strong GRM Supported By Inventory Gains

Bharat Petroleum Corporation or BPCL's reported earnings of Rs22.9bn for 1QFY19 were up 208.0% YoY and down 14.2% QoQ, 13.8% below our expectation, primarily because of: 1) Increase in other expenses from Rs33bn in 1QFY18 and Rs37bn in 4QFY18 to Rs46bn in 1QFY19. 2) Other income at Rs5.4bn declining 34.2% QoQ and 15.7% on YoY basis. 3) Interest expenses at Rs3bn rising 37.6% QoQ and 68.7% YoY. However, the fall in earnings was mitigated by: 1) Rise in gross refining margin or GRM from US\$4.9/bbl in 1QFY18 and US\$6.5/bbl in 4QFY18 to US\$7.5/bbl in 1QFY19. 2) Rise in product sales from 10.04mmt in 1QFY18 to 10.97mmt in 1QFY19. We have retained Accumulate rating on BPCL with a target price of Rs436.

Strong revenues backed by higher domestic sales and rise in crude oil prices: BPCL reported revenues of Rs824bn, an increase of 8.4% QoQ and 23.4% YoY. Higher revenues were driven by: 1) Rise in domestic sales from 10.04mmt in 1QFY18 and 10.73mmt in 4QFY18 to 10.97mmt in 1QFY19, up 9.2% YoY and 2.2% QoQ. 2) Rise in average crude oil prices from US\$50/bbl in 1QFY18 and US\$64/bbl in 4QFY18 to US\$72/bbl in 1QFY19.

Higher GRM led by inventory gains: GRM in 1QFY19 stood at US\$7.5/bbl versus US\$6.5/bbl in 4QFY18 and US\$4.9/bbl in 1QFY18. However, adjusted GRM declined to US\$4.15/bbl in 1QFY19 from US\$5.57/bbl in 4QFY18 and US\$6.87/bbl in 1QFY18. BPCL reported inventory gain of US\$3.34/bbl in 1QFY19 versus US\$0.94/bbl in 4QFY18 and an inventory loss of US\$1.99/bbl in 1QFY18. Kochi refinery's adjusted GRM declined from US\$4.96/bbl in 4QFY18 to US\$3.05/bbl in 1QFY19 on account of commissioning of additional capacity. Mumbai refinery's adjusted GRM stood at US\$5.3/bbl in 1QFY19 versus US\$6.2/bbl in 4QFY18. EBITDA stood at Rs38.7bn, up 4.1% QoQ and 214.7% YoY, supported by the decline in employee benefit expenses by 8.6% QoQ to Rs8.7bn in 1QFY19.

Rising debt level raises concerns: Increase in debt from Rs179bn in 1QFY18 to Rs197bn in 1QFY19 has led to a rise in interest expense by 37.6% QoQ and 68.7% YoY to Rs3.0bn. We believe that with rising capex, debt is expected to increase leading to higher interest expenses. We believe higher interest expenses will negatively impact the earnings going forward.

Lower other income and forex loss exert pressure on earnings: HPCL incurred a forex loss of Rs7bn in 1QFY19 versus a forex loss of Rs1.2bn in 4QFY18. Other income declined 34.2% QoQ and 15.7% YoY and stood at Rs 5.4bn in 1QFY19. Earnings stood at Rs 22.9bn in 1QFY19, down 14.2% QoQ and up 208% YoY.

Retain Accumulate rating with a target price of Rs436: Weak GRM environment, planned capex and interest costs set to increase in the coming quarters will exert pressure on cash flow and lead to increased debt. We maintain our concern over cash flow and decline in RoE/RoCE with the rise in planned capex. We have retained Accumulate rating on the stock with a target price of Rs436.

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ACCUMULATE

Sector: Oil & Gas

CMP: Rs389

Target Price: Rs436

Upside: 12%

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Key Data

Current Shares O/S (mn)	2,169.2
Mkt Cap (Rsbn/US\$bn)	843.3/12.3
52 Wk H / L (Rs)	552/360
Daily Vol. (3M NSE Avg.)	5,493,783

Price Performance (%)

	1 M	6 M	1 Yr
BPCL	3.3	(18.2)	(21.6)
Nifty Index	5.7	9.7	15.8

Source: Bloomberg

Y/E March (Rsmn)	1QFY19	4QFY18	QoQ (%)	1QFY18	YoY (%)	1QFY19E	Var. (%)
Net sales	824,309	760,670	8.4	667,728	23.4	830,147	(0.7)
Cost of goods	(730,572)	(676,603)	8.0	(614,049)	19.0	(741,099)	(1.4)
Employee benefits expenses	(8,751)	(9,571)	(8.6)	(8,087)	8.2	(9,762)	(10.4)
Other expenses	(46,235)	(37,280)	24.0	(33,278)	38.9	(38,026)	21.6
EBITDA	38,752	37,216	4.1	12,314	214.7	41,260	(6.1)
EBITDAM (%)	4.7	4.9	-	1.8	-	5.0	-
Depreciation and amortisation	(7,392)	(7,413)	(0.3)	(5,892)	25.5	(7,635)	(3.2)
EBIT	31,361	29,803	5.2	6,422	388.3	33,625	(6.7)
EBITM (%)	4	4	-	1	-	4	-
Other income	5,480	8,329	(34.2)	6,502	(15.7)	8,329	(34.2)
Interest expenses	(3,018)	(2,194)	37.6	(1,789)	68.7	(2,260)	33.6
Extraordinary/exceptional items	-	-	-	-	-	-	-
Profit before tax	33,823	35,938	(5.9)	11,135	203.8	39,694	(14.8)
Tax expenses	(10,890)	(9,202)	-	(3,690)	-	(13,099)	-
Effective tax rate (%)	32	26	-	33	-	33	-
PAT	22,933	26,736	(14.2)	7,445	208.0	26,595	(13.8)
NPM (%)	2.8	3.5	-	1.1	-	3.2	-

Source: Company, Nirmal Bang Institutional Equities Research

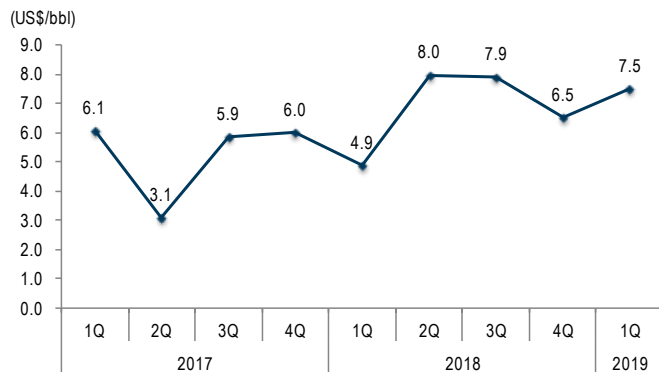
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Exhibit 1: Key financials

Y/E March (Rsmn)	FY16	FY17	FY18E	FY19E	FY20E
Revenues	1,878,546	2,012,507	2,201,707	2,442,870	2,604,991
YoY (%)	(22)	7	9	11	7
EBITDA	129,771	135,125	148,098	164,962	174,437
YoY (%)	35	4	10	11	6
PAT	80,889	95,070	101,686	112,369	117,127
YoY (%)	69	17.5	6.9	11	4
RoE (%)	29	31	28	27	24
EV/EBITDA (x)	6.1	7.6	7.4	6.9	6.8
P/E (x)	9.2	9.2	8.7	7.8	7.5

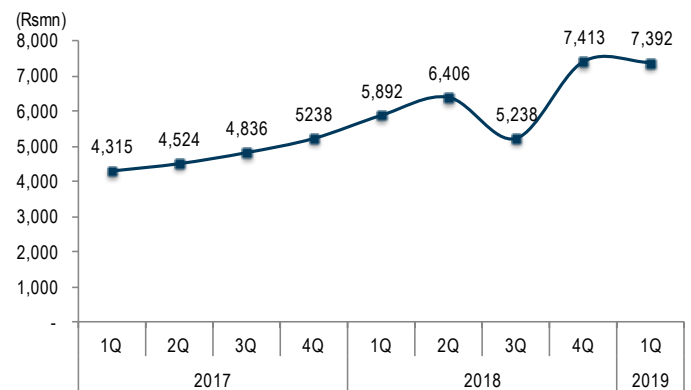
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Gross refining margin



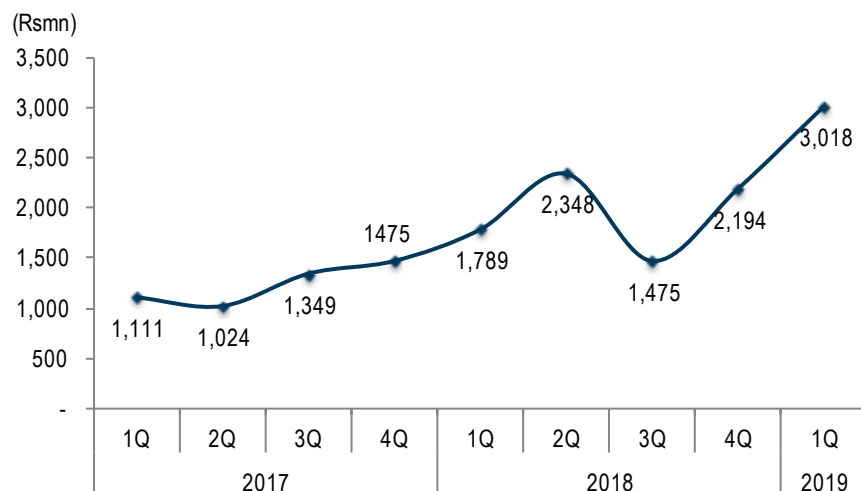
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: Depreciation



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: Interest costs



Source: Company, Nirmal Bang Institutional Equities Research

Consolidated financials

Exhibit 5: Income statement

Y/E March (Rsmn)	FY16	FY17	FY18E	FY19E	FY20E
Net sales	1,878,546	2,012,507	2,201,707	2,442,870	2,604,991
Growth (%)	(21.9)	7.1	9.4	11.0	6.6
Operating expenses	1,590,746	1,714,110	1,968,528	2,186,800	2,330,173
Staff cost	29,621	36,691	32,768	34,407	36,127
Other expenses	128,409	126,582	52,313	56,701	64,254
Total expense	1,748,775	1,877,382	2,053,609	2,277,908	2,430,554
EBITDA	129,771	135,125	148,098	164,962	174,437
Growth (%)	35.2	4.1	9.6	11.4	5.7
EBITDA margin (%)	6.9	6.7	6.7	6.8	6.7
Depreciation & amortisation	20,719	21,076	25,753	31,135	36,001
EBIT	109,052	114,048	122,345	133,827	138,436
Other income	19,469	29,911	31,495	32,669	33,647
Interest paid	6,805	6,964	5,525	6,493	7,035
Others	400	-	-	-	-
PBT	121,316	136,996	148,314	160,003	165,047
Tax	40,427	41,926	46,628	47,633	47,921
Effective tax rate (%)	33.3	30.6	31.4	29.8	29.0
Net profit	80,889	95,070	101,686	112,369	117,127

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: Balance sheet

Y/E March (Rsmn)	FY16	FY17	FY18E	FY19E	FY20E
Equity	6,556	13,113	21,692	21,692	21,692
Reserves	271,377	295,085	346,171	400,191	458,968
Net worth	277,933	308,198	367,863	421,883	480,660
Loans	228,839	331,150	331,024	380,412	418,799
Net deferred tax liabilities	30,720	40,548	21,269	22,019	22,769
Minority interest	16,783	19,582	25,427	30,276	35,126
Liabilities	554,274	699,477	745,583	854,590	957,354
Net block	251,896	444,518	438,668	494,533	560,531
Capital WIP	127,452	117,627	202,957	227,957	237,957
Goodwill	610	610	610	610	610
Investments	169,793	149,007	155,965	187,606	221,793
Cash	20,368	6,380	9,976	5,976	3,146
Inventories	146,437	211,968	195,801	218,744	227,063
Debtors	22,169	48,038	46,288	50,186	54,168
Loans and advances	632	782	38,250	40,817	43,387
Other current assets	124,860.5	111,935	77,738.0	78,258.5	78,780.1
Total current assets	294,098	372,722	358,077	388,005	403,399
Liabilities	300,798	380,628	331,266	359,561	379,393
Provisions	9,145	10,757	89,403	90,536	90,689
Total current liabilities	309,943	391,385	420,669	450,097	470,082
Net current assets	(15,845)	(18,663)	(62,592)	(62,092)	(66,683)
Total assets	554,274	699,477	745,583	854,590	957,354

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: Cash flow

Y/E March (Rsmn)	FY16	FY17	FY18E	FY19E	FY20E
Profit after tax	80,889	95,070	101,686	112,369	117,127
Depreciation	20,719	21,076	25,753	31,135	36,001
Other income	(10,458)	(11,093)	(31,495)	(32,669)	(33,647)
Interest	6,805	6,964	5,525	6,493	7,035
Working capital changes	3,313	(17,733)	(89)	(500)	4,592
Others	9,923	(3,723)	39,174	750	750
Operating cash flow	111,190	90,562	140,555	117,578	131,858
Capital expenditure	(101,843)	(95,592)	(80,000)	(112,000)	(112,000)
Investments	(1,385)	(69,048)	(30,429)	(31,641)	(34,187)
Other income	10,902	12,051	31,495	32,669	33,647
Cash flow from investnents	(92,327)	(152,589)	(78,934)	(110,972)	(112,541)
Equity	-	-	-	-	-
Debt	30,326	126,072	1,000	49,388	38,388
Interest expenses	(10,166)	(10,839)	(5,525)	(6,493)	(7,035)
Dividends	(33,477)	(67,193)	(53,500)	(53,500)	(53,500)
Cash flow from financing	(13,316)	48,039	(58,026)	(10,606)	(22,147)
Total cash generation	5,548	(13,989)	3,596	(4,000)	(2,830)
Opening cash balance	14,820	20,368	6,380	9,976	5,976
Closing cash & bank balance	20,368	6,380	9,976	5,976	3,146

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 8: Key ratios

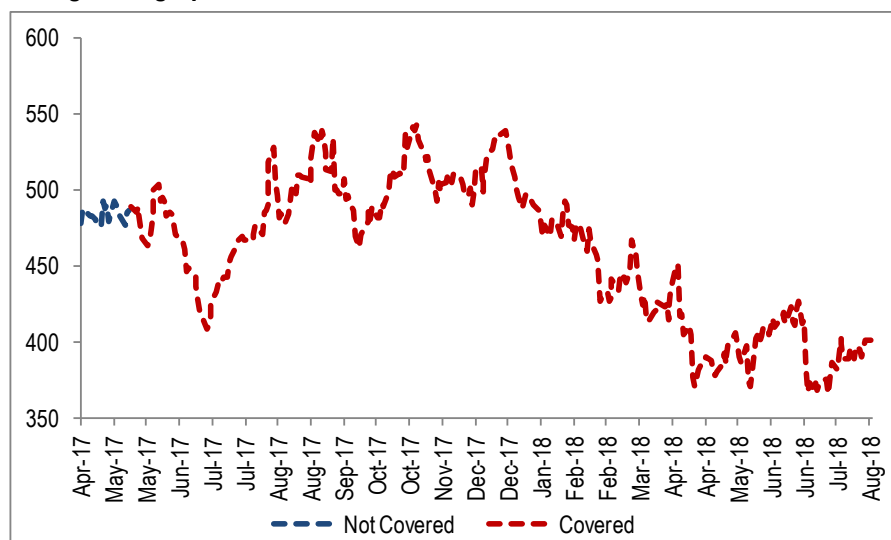
Y/E March (Rsmn)	FY16	FY17	FY18E	FY19E	FY20E
Profitability and return ratios					
EBITDA margin (%)	6.9	6.7	6.7	6.8	6.7
EBIT margin (%)	5.8	5.7	5.6	5.5	5.3
Net profit margin (%)	4.3	4.7	4.6	4.6	4.5
RoE (%)	29.1	30.8	27.6	26.6	24.4
RoCE (%)	22.4	18.0	17.8	16.8	15.4
Working capital & liquidity ratios					
Receivables (days)	4	9	8	7	8
Inventory (days)	34	45	36	37	36
Payables (days)	69	81	61	60	59
Current ratio (x)	0.95	0.95	0.85	0.86	0.86
Valuation ratios					
EV/sales (x)	0.6	0.5	0.5	0.5	0.5
EV/EBITDA (x)	6.1	7.6	7.4	6.9	6.8
P/E (x)	9.2	9.2	8.7	7.8	7.5
P/BV (x)	3.0	2.6	2.3	2.0	1.8

Source: Company, Nirmal Bang Institutional Equities Research

Rating track

Date	Rating	Market price	Target price (Rs)
12 May 2017	Accumulate	738	717
16 August 2017	Accumulate	479	478
15 November 2017	Accumulate	493	489
12 February 2018	Accumulate	475	513
31 May 2018	Accumulate	400	436
9 August 2018	Accumulate	389	436

Rating track graph



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BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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