

BPCL

Demanding valuation

The Bharat Petroleum Corporation (BPCL) stock rallied ~33% and outperformed the Sensex by ~22% over the last 6M. However, we believe the current market price is still factoring in very optimistic earnings growth on the back of a very strong FY24. With crude oil prices rising by ~5% from average prices seen in Q4FY24 and rising ~12% to over USD 86/bbl over the last month, we expect this to adversely impact BPCL's marketing segment profitability, going ahead. Additionally, with weaker-than-expected global demand for transportation fuels and increased refined product supplies, we reiterate our stance of refining margins moderating from higher-than-average transportation fuel crack spreads seen in FY24, which should impact the contribution from its refining segment too. Therefore, we maintain our REDUCE rating with a target price of INR 275/sh.

- Moderation in refining margin:** Diesel crack spreads in Q1FY25 declined to USD 16.3/bbl, down 29% QoQ, while gasoline cracks in Q1FY25 declined to USD 8.8/bbl, down 33% QoQ. As highlighted earlier, the cracks were largely impacted by moderation in demand and the increase in refined product supplies. We expect BPCL's GRMs at USD 8.4/8.7 per bbl over FY25/26E, implying a gross margin of INR ~206/216bn for FY25/26 compared to INR 350bn in FY24. Our sensitivity analysis suggests that every USD 1/bbl change in GRM impacts BPCL's FY25/26E EPS by 16.6/14.8% or INR 8.6/8.7 per share.
- Rise in crude oil price impacts auto fuel marketing margins:** With crude oil prices rising ~5% from Q4FY24 average prices to over USD ~86/bbl, our estimated gross marketing margins on petrol and diesel declined in Q1FY25 to INR 2.5/ltr and INR 0.1/ltr from INR 5.6/ltr and INR 0.7/ltr in Q4FY24 respectively, translating to a gross margin of INR 294/308bn in FY25/26 compared to INR 376bn in FY24. We continue to maintain our stance of oil marketing companies making normal gross marketing margins (as opposed to super normal margins seen over the last 18 months). Therefore, for BPCL, we factor in blended gross marketing margins of INR 4.6/4.6 per litre for FY25/26E. Every INR 0.5/litre change in gross marketing margin impacts BPCL's FY25/26E EPS by 22.5/20.8% or INR 11.8/12.3 per share.
- Increase in capex intensity:** BPCL has committed a capex of INR 1.7trn over FY25-29, implying an annual capex outgo in the range of INR 160-200bn over the next five years compared to a capex of INR 117bn in FY24. This increase in capex intensity on the back of muted refining and marketing profitability could add pressure to the balance sheet. Given the high capex guidance for the next five years, we expect consolidated net debt to remain elevated at INR 284/322bn in FY25/26E.
- Valuation:** Given the recent rally in the stock price and demanding valuation at the current market price, we maintain our REDUCE rating owing to the unfavourable risk-reward. The stock is trading at 12.2x FY25E EPS, 1.5x FY25E P/Bv and 7.8x FY25E EV/EBITDA. Our SOTP valuation delivers a target price of INR 275/sh (adj. for 1:1 bonus shares), factoring in BPCL's refining and marketing segment at 5.5x EV/E, and investments at a 25% discount to CMP.

Financial summary (consolidated)

(INR mn)	FY22	FY23	FY24P	FY25E	FY26E
Net Sales	3,468	4,732	4,481	4,802	5,108
EBITDA	191	109	441	204	212
APAT	117	21	269	107	118
AEPS (INR)	27.3	5.0	62.9	25.0	27.5
P/E (x)	11.1	61.1	4.8	12.2	11.1
EV/EBITDA(x)	9.2	16.5	3.7	7.8	7.7
RoE (%)	22.2	4.0	41.6	13.3	13.2

Source: Company, HSIE Research

REDUCE

CMP (as on 1 Jul 2024)	INR 305
Target Price	INR 275
NIFTY	24,142

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	INR 275	INR 275
	FY25E	FY26E
EPS %	-	-

KEY STOCK DATA

Bloomberg code	BPCL IN
No. of Shares (mn)	4,339
MCap (INR bn) / (\$ mn)	1,321/15,835
6m avg traded value (INR mn)	6,127
52 Week high / low	INR 344/166

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	1.4	34.7	67.0
Relative (%)	(6.0)	24.8	44.2

SHAREHOLDING PATTERN (%)

	Dec-23	Mar-24
Promoters	52.98	52.98
FIs & Local MFs	22.13	21.29
FPIs	14.21	16.80
Public & Others	10.37	8.93
Pledged Shares	0.00	0.00

Source: BSE

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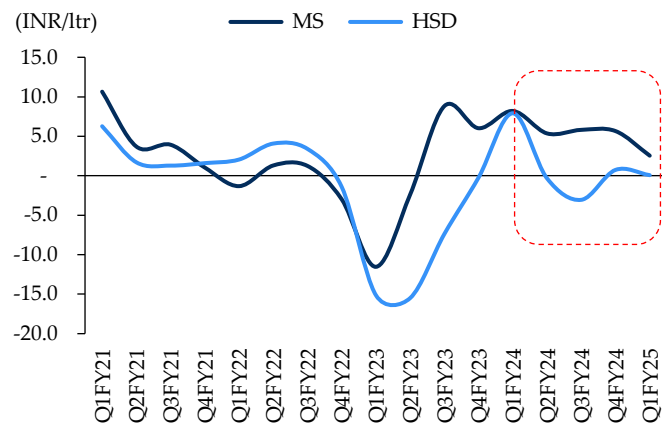
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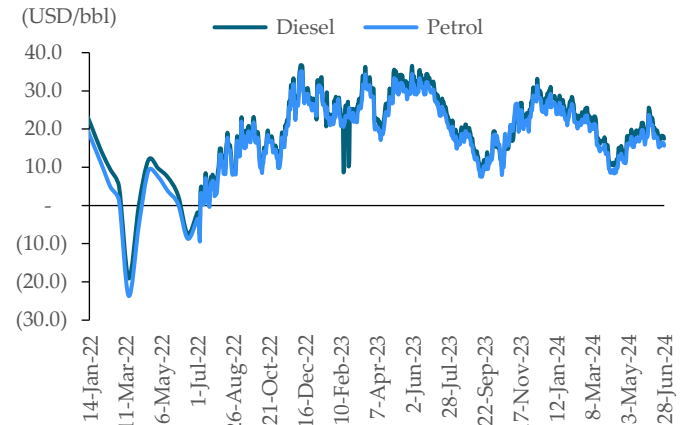
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Exhibit 1: Gross marketing margins for petrol and diesel decline QoQ



Source: PPAC, Bloomberg, HSIE Research

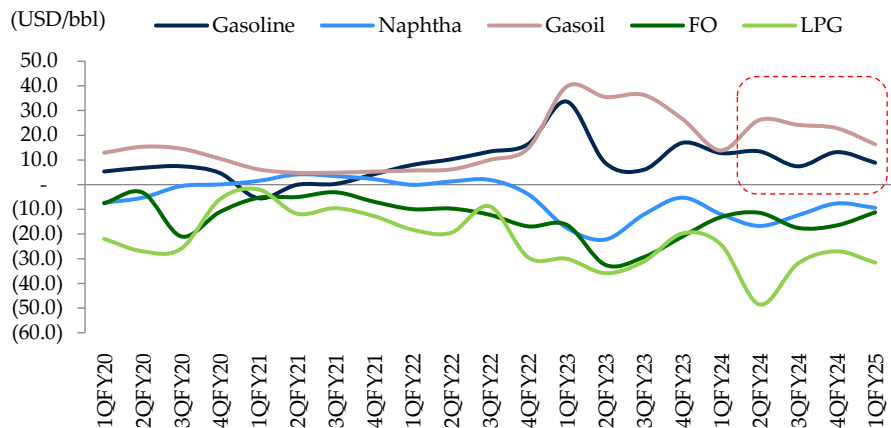
Exhibit 2: Total (refining + marketing) gross margins decline from its near term peak



Source: PPAC, Bloomberg, HSIE Research

Exhibit 3: Transportation fuel cracks moderate QoQ

Gasoil crack spreads declined 29% while gasoline crack spreads declined 33% QoQ



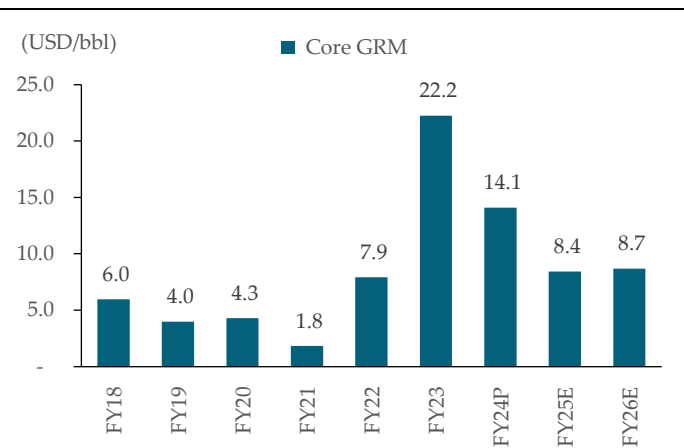
Source: Bloomberg, HSIE Research

Exhibit 4: New refining capacity to ramp up/commence operations in a few months

Refinery	Country	Refining Capacity (kbpd)	Status
Al-Zour	Kuwait	615	Kuwait's Al-Zour refinery hits full capacity for first time. It is one of the largest refinery in the middle east by capacity.
Dangote	Nigeria	650	Nigeria's new Dangote oil refinery is increasing gasoil exports to West Africa, taking market share from European refiners. Expected to achieve full capacity utilisation by end of CY24.
Duqm	Oman	230	Successfully exported its first shipment of high-quality diesel. This coincides with the company getting closer to achieving commercial operation, with trial operations continuing to progress, exceeding 81 percent, while the percentage of construction work has exceeded more than 99 percent.
Port Harcourt	Nigeria	210	Likely to commence operations by end of Jul-24

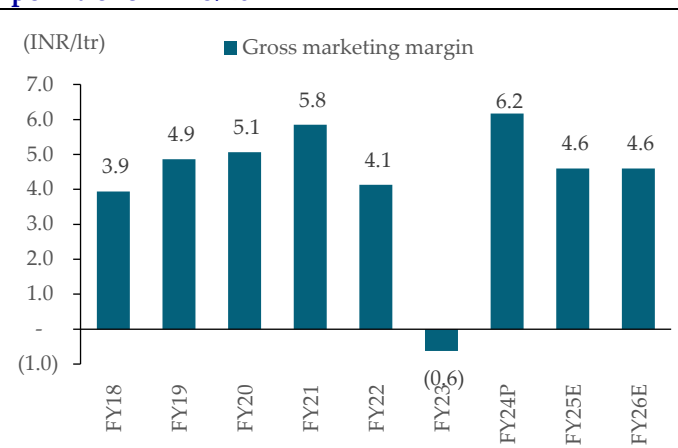
Source: Industry, HSIE Research

Exhibit 5: We estimate GRMs of USD 8.4/8.7 per bbl...



Source: Company, HSIE Research

Exhibit 6: ...and gross marketing margins of INR 4.6/4.6 per litre for FY25/26



Source: Company, HSIE Research

Change in estimates: Our EPS estimates remain unchanged for FY25/26 at INR 25/27.5 per share which factors refining margins at USD 8.4/8.7 per bbl and gross marketing margins are INR 4.6/4.6 per litre. Our SOTP valuation delivers a target price of INR 275/sh (adj. for 1:1 bonus shares), factoring in BPCL’s refining and marketing segment at 5.5x EV/E, and investments at a 25% discount to CMP.

Exhibit 7: Change in estimates and target price

	CMP (INR)	RECO	TP (INR/sh)		Old EPS (INR/sh)		New EPS (INR/sh)		Est Change (%)	
			Old	New	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
BPCL	305	REDUCE	275	275	25.0	27.5	25.0	27.5	0.0%	0.0%

Source: NSE, HSIE Research

Exhibit 8: HSIE vs consensus estimates

(INR/sh)	HSIE			Bloomberg consensus			HSIE vs consensus		
	FY25E	FY26E	TP	FY25E	FY26E	TP	FY25E	FY26E	TP
BPCL	25.0	27.5	275	34.4	34.5	314	-27%	-20%	-12%

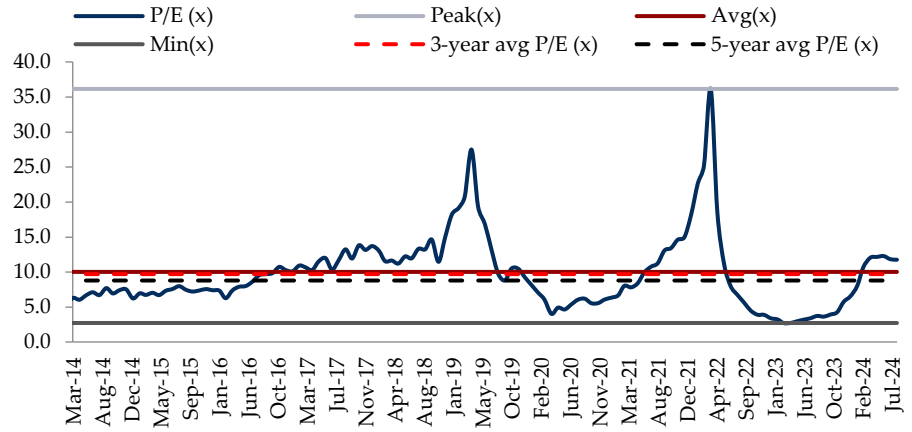
Source: Bloomberg, HSIE Research

Exhibit 9: Target price and earnings sensitivity

(Consolidated)	Target Price (INR/sh)	Target Price (% chg)	EPS (INR/sh)		Chg in EPS (%)	
			FY25E	FY26E	FY25E	FY26E
HSIE	275	-	25.0	27.5	-	-
USD 1/bbl chg in GRMs	314	13.9	29.3	31.9	17.2	15.8
Rs0.5/ltr chg in gross marketing margin	322	17.1	30.1	32.9	20.3	19.5

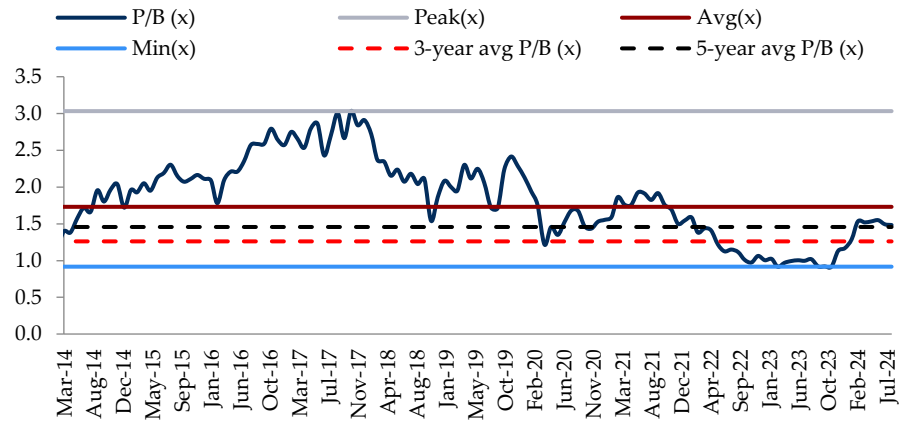
Source: HSIE Research

Exhibit 10: BPCL P/E band chart



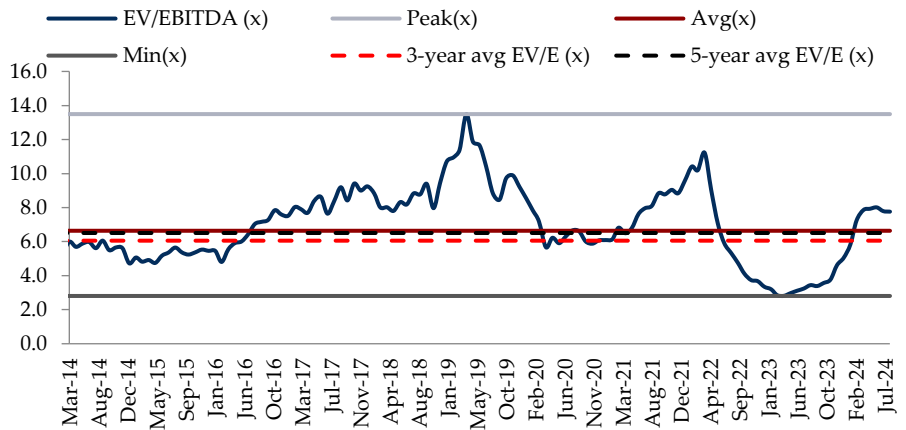
Source: NSE, Company, HSIE Research

Exhibit 11: BPCL P/Bv band chart



Source: NSE, Company, HSIE Research

Exhibit 12: BPCL EV/EBITDA band chart



Source: NSE, Company, HSIE Research

Exhibit 13: Consolidated peer set comparison

Company name	CMP (INR/sh)	RECO	TP (INR/sh)	P/E (x)		P/B (x)		EV/EBITDA (x)		RoE (%)	
				FY25E	FY26E	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Bharat Petroleum Corporation	305	REDUCE	275	12.2	11.1	1.5	1.4	7.8	7.7	13.3	13.2
Reliance Industries	3,120	ADD	3,255	26.8	25.2	2.4	2.2	12.7	11.9	9.5	9.3
Indian Oil Corporation	168	REDUCE	145	9.7	8.8	1.2	1.1	7.0	6.6	12.5	12.9
Hindustan Petroleum Corporation	331	REDUCE	300	9.4	7.5	1.4	1.2	8.5	7.5	15.2	17.0
SK Innovation co ltd	79	NR	NR	14.2	6.5	0.5	0.4	7.6	5.6	3.4	7.0
S-Oil corp	48	NR	NR	6.4	5.8	0.8	0.7	4.8	4.4	13.1	12.6
Idemitsu Kosan Co ltd	6	NR	NR	8.2	7.9	0.7	0.7	7.6	7.4	9.0	9.0
Thai Oil PCL	1	NR	NR	7.6	5.5	0.7	0.6	8.7	6.5	9.0	11.5
Bangchak Corp PCL	1	NR	NR	5.3	4.8	0.7	0.6	4.6	4.5	14.0	13.2
Star Petroleum Refining	0.2	NR	NR	6.5	6.9	0.9	0.8	4.8	4.9	13.8	12.2
Formosa Petrochemical Corp	2	NR	NR	29.1	21.1	1.8	1.7	15.6	11.8	6.0	6.0
Channel Infrastructure NZ Ltd	1	NR	NR	18.5	17.8	1.2	1.2	9.2	9.5	8.8	7.1
Ampol (Caltex)	22	NR	NR	11.7	11.4	2.2	2.1	6.8	6.7	19.4	19.4
Valero Energy	154	NR	NR	10.1	11.3	1.8	1.7	6.1	6.8	19.5	16.5
Marathon Petroleum	174	NR	NR	10.6	10.8	2.7	2.8	6.4	6.9	25.6	24.3
Phillips 66	140	NR	NR	12.5	10.2	1.9	1.8	8.4	7.6	16.2	18.5

Source: Company, Bloomberg, HSIE Research | *Note: CMP for global refiners is in USD; FY25/26E is CY24/25 for global refiners

Financials (Consolidated)

Income Statement

(INR bn)	FY22	FY23	FY24P	FY25E	FY26E
Net Revenues	3,468	4,732	4,481	4,802	5,108
<i>Growth %</i>	50.7	36.4	(5.3)	7.2	6.4
Raw Material	3,034	4,332	3,761	4,301	4,582
Employee Cost	34	28	36	39	43
Other Expenses	208	263	243	258	270
EBITDA	191	109	441	204	212
<i>EBITDA Margin (%)</i>	5.5	2.3	9.8	4.3	4.2
<i>EBITDA Growth (%)</i>	(10.1)	(43.1)	304.9	(53.7)	3.8
Depreciation	54	64	68	70	73
EBIT	137	45	373	134	139
Other Income (Including EO Items)	34	(1)	20	25	28
Interest Cost	26	37	41	36	38
PBT	145	6	351	123	129
Taxes	44	7	93	31	33
RPAT	101	(1)	258	92	97
EO (Loss) / Profit (Net Of Tax)					
APAT	101	(1)	258	92	97
Share of associates and minority interest	15	22	11	15	21
Consolidated Net Profit (Adjusted)	117	21	269	107	118
<i>APAT Growth %</i>	(27.7)	(81.8)	1,160.4	(60.2)	10.0
AEPS	27.3	5.0	62.9	25.0	27.5
<i>EPS Growth %</i>	(27.7)	(81.8)	1,160.4	(60.2)	10.0

Source: Company, HSIE Research

Balance Sheet

(INR bn)	FY22	FY23	FY24P	FY25E	FY26E
SOURCES OF FUNDS					
Share Capital	21	21	21	43	43
Reserves And Surplus	498	514	735	806	887
Net Worth	519	535	756	849	930
Minority Interest	-	-	-	-	-
Long-term Debt	444	496	355	365	375
Short-term Debt	75	72	65	75	90
Total Debt	519	568	420	440	465
Net Deferred Taxes	64	79	80	84	90
Long-term Provisions & Others	18	22	24	25	25
Total liabilities	1,120	1,204	1,281	1,397	1,510
APPLICATION OF FUNDS					
Net Block	839	867	868	958	1,066
CWIP	154	162	202	214	227
Investments	192	225	223	235	246
LT Loans And Advances	42	45	45	47	49
Other Non-current assets	28	22	29	30	31
Total Non-current Assets	1,255	1,321	1,367	1,484	1,620
Inventory	422	381	428	416	444
Debtors	97	67	83	81	86
Cash And Cash Equivalent	67	69	106	156	143
Loans And Advances	1	1	1	1	1
Other Current Assets	33	42	38	42	46
Total Current Assets	620	560	657	697	720
Creditors	303	240	283	299	319
Other Current Liabilities & Provns	452	437	460	484	511
Total Current Liabilities	756	677	743	783	830
Net Current Assets	(136)	(117)	(86)	(87)	(110)
Total Assets	1,120	1,204	1,281	1,397	1,510

Source: Company, HSIE Research

Cash Flow Statement

(INR bn)	FY22	FY23	FY24P	FY25E	FY26E
Reported PBT	145	6	351	123	129
Non-operating & EO Items	(19)	23	(9)	(10)	(7)
Interest Expenses	26	37	41	36	38
Depreciation	54	64	68	70	73
Working Capital Change	46	(17)	7	51	10
Tax Paid	(29)	9	(93)	(27)	(26)
OPERATING CASH FLOW (a)	224	122	366	243	216
Capex	(235)	(100)	(108)	(173)	(194)
Free Cash Flow (FCF)	(11)	22	257	70	23
Investments	8	(33)	2	(11)	(12)
Non-operating Income	34	(1)	20	25	28
Others	8	4	(7)	(3)	(3)
INVESTING CASH FLOW (b)	(186)	(131)	(94)	(162)	(181)
Debt Issuance/(Repaid)	43	49	(148)	20	25
Interest Expenses	(26)	(37)	(41)	(36)	(38)
FCFE	6	34	68	54	10
Share Capital Issuance	0	-	0	21	-
Dividend	(81)	(17)	(179)	(36)	(36)
Others	(57)	16	134	0	0
FINANCING CASH FLOW (c)	(121)	11	(234)	(31)	(49)
NET CASH FLOW (a+b+c)	(82)	2	37	51	(14)
EO Items, Others					
Closing Cash & Equivalents	67	69	106	156	143

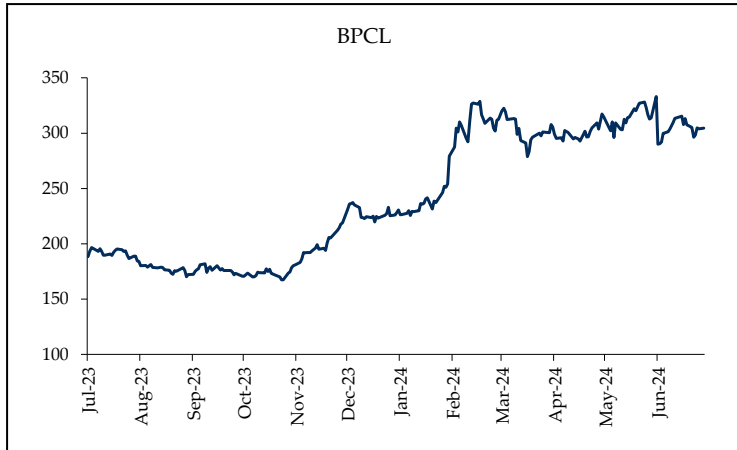
Source: Company, HSIE Research

Key Ratios

	FY22	FY23	FY24P	FY25E	FY26E
PROFITABILITY %					
EBITDA Margin	5.5	2.3	9.8	4.3	4.2
EBIT Margin	4.0	1.0	8.3	2.8	2.7
APAT Margin	3.4	0.5	6.0	2.2	2.3
RoE	22.2	4.0	41.6	13.3	13.2
Core RoCE	13.6	(0.7)	30.4	11.7	11.6
RoCE	12.3	1.5	24.1	10.0	10.0
EFFICIENCY					
Tax rate %	30.0	109.7	26.6	25.2	25.2
Asset Turnover (x)	3.4	4.2	3.8	3.6	3.4
Inventory (days)	44	29	35	32	32
Debtor (days)	10	5	7	6	6
Other Current Assets (days)	4	3	3	3	3
Payables (days)	37	20	27	25	25
Other Curr Liab & Prov (days)	48	34	37	37	36
Cash conversion cycle (days)	(26)	(16)	(20)	(21)	(21)
Net Debt/EBITDA (x)	2.4	4.6	0.7	1.4	1.5
Net D/E	0.9	0.9	0.4	0.3	0.3
Interest Coverage	5.3	1.2	9.0	3.7	3.7
PER SHARE DATA (Rs)					
AEPS	27.3	5.0	62.9	25.0	27.5
CEPS	40.1	19.9	78.7	41.5	44.6
DPS	18.9	4.0	42.0	8.4	8.5
BV	121.5	125.3	177.0	198.6	217.7
VALUATION					
P/E (x)	11.1	61.1	4.8	12.2	11.1
P/Cash EPS (x)	7.6	15.3	3.9	7.3	6.8
P/BV (x)	2.5	2.4	1.7	1.5	1.4
EV/EBITDA (x)	9.2	16.5	3.7	7.8	7.7
EV/Revenue (x)	0.5	0.4	0.4	0.3	0.3
OCF/EV (%)	12.8	6.8	22.6	15.3	13.3
FCFF /EV (%)	(0.7)	1.2	15.9	4.4	1.4
FCFE/M CAP (%)	0.4	2.6	5.2	4.2	0.7
Dividend Yield (%)	6.2	1.3	13.8	2.8	2.8

Source: Company, HSIE Research

1 Yr Price Movement



Rating Criteria

BUY: >+15% return potential

ADD: +5% to +15% return potential

REDUCE: -10% to +5% return potential

SELL: >10% Downside return potential

Disclosure:

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