kotak Securities

Pick of the week

31st Aug'20

BPCL Ltd

Recommendation	Time Period
Buy	12 Months

Current Price	Target Price	Potential Upside
₹415	₹480	16%

Investment Argument

- BPCL's normalized results were well ahead of our estimates due to higher-than-expected margins.
- We expect BPCL to benefit from value unlocking from proposed strategic sale by the government, and potential improvement in earnings/FCF profile under a private player.
- We also expects elevated marketing margins on auto fuels, which may offset ongoing weakness in refining, gradual recovery in domestic petroleum demand, potential turnaround in global refining cycle from below-trough levels currently and lower fuel and loss in a weaker crude price environment.
- Reduction in gross debt; privatization process expected to complete by end-FY21. Gross debt reduced to Rs34,550 cr as of Jun'20 from Rs42,000 cr a quarter ago.
- We expect earnings to grow by 230% in FY21 and by 6.0% in FY22. We raise our FY21E EPS by 35% and FY22-23E EPS by 9-12% factoring in higher auto fuel marketing margins, lower underlying refining margins for FY21, etc.
- We reiterate BUY with a Fair Value of Rs.480.

Note: The above is a brief note on the company, based on the inputs of KIE research report dated 14th August, 2020, which is available on our website at: https://www.kotaksecurities.com/ksweb/ResearchCall/Fundamental.