"Bharat Petroleum Corporation Limited Q1 FY24 Earnings Conference Call"

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MODERATOR: **MR. HARSHAVARDHAN DOLE – IIFL SECURITIES LTD.**

Moderator: Good morning ladies and gentlemen. Welcome to Bharat Petroleum Corporation Limited Q1 FY24 Earnings Conference Call hosted by IIFL Securities Limited.

As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Harshavardhan Dole from IIFL Securities Limited. Over to you, sir.

Harshavardhan Dole: Greetings everyone. On behalf of IIFL Securities, I welcome you all to the 1st Quarter FY24 earnings call of BPCL.

To discuss the performance of the quarter gone by, we have the senior management team of BPCL represented by Director (Finance), Mr. VRK Gupta; ED (Corporate Finance), Mr. Pankaj Kumar; CGM (Corporate Treasury), Mrs. Srividya V; DGM (Pricing & Insurance), Chanda Negi; and Senior Manager (Pricing & Insurance), Rahul Agrawal.

I would hand over the call to Rahul for the opening statement subsequent to which the call will be open for Q&A. Over to you, Rahulji.

Rahul Agrawal: On behalf of the BPCL team, I welcome you all to this post Q1 Results Con-Call.

Before we begin, I would like to mention that some of the statements that we make during this con-call are based on our assessments of the matter and we believe that these statements are reasonable. However, their nature involves a number of risks and uncertainties that may lead to different results.

Since this is a quarterly results review, please restrict your questions to the Q1 Results. I now request our Director (Finance) – Mr. VRK Gupta who is leading the BPCL team for this call to make his opening remarks. Over to you, sir.

VRK Gupta: Good morning everyone. Welcome. Hope you were able to go through our results for the Quarter gone by.

We are pleased to share that BPCL has registered the highest-ever quarterly EBITDA, highest ever profit after tax excluding the exceptional items and highest ever total equity during quarter

1. The data of economic indicators shows that almost all sectors have recovered and are in line with or already crossing the pre-pandemic levels. World Bank and OECD have nudged up the global growth forecast for '23. India's economic growth is expected to be range bound between 5.5 to 6.5 for financial year '23-24. In the recent S&P global ratings outlook, India is projected to grow at an average of 6.7% for the next 3 years and growth forecast unchanged at 6% for this fiscal year projecting a sharp bounce back to 6.9% in '24-25 and '25-26. Sales of automobiles recorded a massive growth of 10% year on year, passenger vehicle sales grew by 9.4% and crossed pre-pandemic level, commercial vehicle sales dropped by 3.3%. However, the same is about 2019 levels.

Coming to BPCL performance for the last quarter:

We recorded a stellar performance on both physical and financial parameters during this quarter. The throughput for refineries stood at 10.36 MMT for the quarter 1 compared to earlier quarter. It is significantly higher than the nameplate capacity which was around 115% of capacity utilization. The distillate yield was 84.09% during this quarter compared to previous quarter of 83.87%. During this quarter, we could process high sulfur crude of around 76% of the total crude throughput against 73% in the last quarter of previous year. The capacity utilization for PDPP, i.e., our petrochemicals complex at Kochi refinery which was around 70% during this quarter. BPCL GRM for quarter 1 is $12.64 per barrel, all three refineries put together, as compared to $20.58 per barrel in Q4 of FY23. On a sequential basis, there is a reduction of GRM due to mainly reduction of the cracks. The drop in GRM is mainly due to sharp correction in fuel cracks with higher supplies and global macro headwinds during quarter 1. The HSD Singapore cracks fell down to $15.5 per barrel in Q1 from $28.2 per barrel in Q4 of FY23, and MS Singapore cracks were at $12 per barrel in Q1 from $15 per barrel in Q4 of FY23. When we compare quarter 1 of current year vis-a-vis quarter 4 of last financial year on sequential basis, the Indian basket of crude oil has decreased to $77.7 per barrel from $80.52 per barrel and the rupee has been hovering around 82 per dollar.

During the quarter, BPCL has registered a healthy growth in core retail fuels by gaining a market share of 0.20 and 1.82 in MS and HSD respectively among PSUs. Consequently, the main products MS-HSD-ATF-CNG registered a growth of 6.1% in MS, 6% in HSD, 14.2% growth in ATF, and 19.7% growth in CNG during this quarter as compared to Q1 of 2022-23. We estimate that retail MS demand growth will be on similar lines for the entire year during 2023-24 financial year. HSD demand in urban markets is likely to witness relatively slower demand than the rural and highway market due to a little bit of transition happening towards CNG. We plan to add around a thousand new retail outlets during FY 2023-24. And during quarter 1, we have added 111 new retail outlets. We have recently approved major projects with a capital outlay of almost Rs. 50,000 crores during this quarter, mainly the petchem project at Bina Refinery, some POL facilities at Rasayani, and there are some wind power projects around 50 MW x2 in Madhya Pradesh and Maharashtra.

In line with BPCL commitment for net zero at Scope 1 and Scope 2 level emissions by 2040, our renewables team has taken multiple projects. BPCL has a total installed renewable energy capacity of 46 megawatts as of date. We have projects in progress of around 60 megawatts and recently we have announced two major projects of 50 megawatts each in wind. We have signed multiple MOUs with Solar Energy Corporation of India and various state governments for development of RE projects. In keeping with its vision of a comprehensive energy provider, BPCL intends to turn its all ROs into complete energy stations with provision of charging stations at its 7,000 ROs by '24 December. Currently we have 747 EV charging stations and 13 battery swapping stations. The thrust is to provide charging stations at highways and cities prioritized by the Government of India. BPCL has adopted a highway fast charging corridor model with provision of fast charges either 30 kilowatt per hour or 60 kilowatt per hour at every 100 km on both sides of the highway corridor. Eighty such corridors are operational till date. We plan to set up around 400 such highway corridors.

Under the gas business, BPCL has emerged as a successful bidder in 25 GAs. We, along with our JVs, hold 29.1% market share in terms of sales in the CGD sector of the country and would be investing approximately Rs. 48,000 crores over the life of these GAs and around Rs. 15,000 crores we are going to spend in the next 5 years for making it operationally viable in the next 5 years for the CGD sector.

Construction in our GAs is in full swing and we have completed almost 13,742 inch-kilometers of steel pipeline in our geographical areas where we got authorization under various CGD bid rounds. Commercial sales have been started in 16 GAs. We currently dispense CNG in 1,607 retail outlets and further by the financial year end, we aim to add another 500 CNG stations in our existing MS and HSD retail outlets. We have recently issued advertisement for 14,273 new retail outlets spread across the country for capturing more markets and increase our presence.

Under non-fuel consumer retailing, currently we have around 300 in-and-out stores in line with our focus to expand non-fuel consumer retailing in urban and rural markets and set up an organized retailing ecosystem. We have commissioned around 120 retail rural stores till June and will be increasing to 1,000 stores over a period of time.

In terms of petrochemicals, recently we have announced a large petrochemical complex at Bina with additional impetus to the petrochemical segment in future. We plan to set up ethylene cracker, HDPE, LLDPE, and polypropylene units along with other downstream petchem units at Bina Refinery and undertake refinery expansion from 7.8 MMTPA to 11 MMTPA. The refinery expansion is mainly for availability of feedstock for petrochemicals. On account of this project, additional petchem facilities of approximately 2200 KTPA will come on stream by 2028. Gross capital expenditure of the project is Rs. 49,000 crores including the GST. If we remove the GST component, the net project cost will be around Rs. 43,000 crores.

For Q1, the revenue from operations stood at Rs. 1,28,257 crores and the profit after tax stood at Rs. 10,551 crores. During this year, we have a CAPEX target of around Rs. 10,000 crores for the financial year 2024. We have spent about Rs. 1,464 crores in Q1. Our gross borrowings have significantly improved compared to Rs. 35,855 crores as on 31st March '23 to Rs. 27,939 crores. This is only gross borrowings. We are excluding the lease obligations amounting to around Rs. 8,800 crores. The debt equity ratio as on 30th June is at 0.45 as compared to 0.69 at the end of Q4 of FY23 on gross borrowing basis. On a consolidated basis with respect to Q1, revenue from operations stood at Rs. 1,28,264 crores while profit after tax stood at Rs. 10,644 crores.

Recently, our board has approved the proposal for raising capital up to an amount of not exceeding Rs. 18,000 crores for achieving energy transition, net zero, and energy security objectives. This capital will be raised by way of issue of equity shares on rights issue basis to eligible equity shareholders of the Corporation as on the record date.

I now invite for questions and for any clarifications.

Moderator: Ladies and gentlemen, we will now begin with the question & answer session. We will wait for a moment while the question queue assembles. Participants, in order to ensure that the management is able to address all questions from the participants in this conference call, we request you to limit your questions to one per participant only. The first question is from the line of Rajesh Aynor from ITI Limited. Please go ahead.

Rajesh Aynor: Sir, my question is around the retail fuel prices and our approach for the same because the last more than 1 year has been an extraordinary time in the history and we have seen a lot of ups and downs, more downs. The oil prices shot up and we couldn't raise it proportionately obviously because of consumer interest. Now that a large part of the recoupment of whatever losses we had made earlier has been done, what's your take on the future retail fuel prices and when would let's say normalization would start? How is the company looking at these things?

VRK Gupta: Yes, I agree. Some of the losses what we have incurred in the marketing of last year, some of the losses we have recouped during this quarter but entire losses of marketing we could not recover in this quarter. That said, secondly the market trends if you see, the prices of crude are not yet stabilized. When we see, the crude prices will hover around $75, then for a long term basis if we foresee, the crude is at around $75 level, still we can think of anything, but otherwise, still the crude prices have started going up. Recently, in the last couple of days, the crude has gone up to $82-83 levels. We have to wait and see how the crude prices will stabilize. Then we can take a call on the pricing side. But as on date, whatever losses of under-recoveries of last year, oil companies, at least for BPCL, we are not fully recovered 100%. We have to wait and see how the crude prices will move, how the cracks will move. Accordingly, we can take a call in the future.

Rajesh Aynor: Sir, it is possible to give any timeline? Because, of course, all losses may not have been recouped but a large part of it would have been done and even the refining margins have been strong and supportive for us for the refining division. So, to some extent, there will be some compensation from that side as well.

VRK Gupta: That is what I am trying to say. We have to wait and see how the crude prices will move. Just it has started moving up; now it is around $82-83 level. The Brent crude is there. So, we have to wait and see for some more time. If we get a full clarity on the crude price movements, then we can take a call.

Moderator: The next question is from the line of Sabri Hazarika from Emkay Global. Please go ahead.

Sabri Hazarika: I have one question; this is pertaining to the rights issue of Rs. 18,000 crores. This Rs. 18,000 crores is part of – I think it is like somewhat influenced by the Rs. 30,000 crores of capital support which the government has announced during the budget. It has been mentioned it is both for energy security as well as energy transition. So, if you are raising, the objective of this rights – I know you have not given the details, but can you give us some sense on how the allocation would be on energy transition versus energy security?

VRK Gupta: Yes. Two parts in your question. One is whether it is a part of Rs. 30,000 crores or not. Yes, definitely it is from the budgetary support what they have announced. The money from the Government of India, infusion comes from that budgetary support only. Second is, this particular rights issue we are proposing towards three objectives. One is our net zero ambitions and net zero aspirations. The second is energy transition related and the third one is energy security. Energy security is mainly wherever we have exploration blocks. India as a country, we are short in terms of energy related crude oil and other things. So, definitely we need some more investments for getting this energy security for putting more money on the exploration side. Second is, our investments towards energy transition is mainly for CGD business and second is to put some more money in the electric vehicle charging stations. And mainly for alternative fuels. For example, biofuel, CBG, and related investments we need this particular money. Accordingly, allocations individual project-wise when you see, our total ambitious CAPEX target for the next 5 years will be around Rs. 1.4 lakh crores to Rs. 1.5 lakh crores. Majority of the CAPEX requirements are for these three objectives. One is net zero and energy transition and energy security related. Most of the Rs. 18,000 crores rights issue proceeds will be allocated towards these objectives. Individual project-wise we are working on it how much money we have to allocate to individual projects. We will come back and we will announce at the time of filing our application what allocation for what type of projects we are going to do.

Sabri Hazarika: Just a small followup. Energy security means it is like the normal CAPEX only; it includes everything, right?

VRK Gupta: Right.

Moderator: The next question is in the line of Amit Rustagi from UBS. Please go ahead.

Amit Rustagi: My question relates to BPCL refining margins for the Mumbai Refinery. Why the margins were so low versus Bina and Kochi?

VRK Gupta: If you see our Mumbai Refinery configuration, their high sulfur percentage will be lower. They can process low sulfur grades will be on higher quantum and high sulfur grades will be at a lower quantum. Second, even if we see the combination of crude processing in Mumbai Refinery, the Russian crude composition will be lesser in Mumbai Refinery as compared to Kochi Refinery and Bina Refinery. The other two refineries can take a maximum of crude around 45% to 50% of Russian grades and high sulfur grades. During this quarter if you see the high sulfur grades, the commercial pricing side if you see, there is a good benefit in processing of high sulfur, mainly for Russian grades. That is one reason. And secondly, during this quarter, a small technical reason of non-availability of sufficient hydrogen, we could not process some quantity of production. That will have a small impact only, but otherwise, the major impact of Mumbai Refinery margins are mainly processing of low sulfur grades than high sulfur grades.

Amit Rustagi: So, can we say that the majority of the difference is because of the Russian crude between the two sets of refineries like Bina and Kochi?

VRK Gupta: Yes, directionally, the major contributor for this differential is Russian grades.

Amit Rustagi: Sir, could you explain to us the LPG mechanism? Because, on this 30th June, you have made a comment about LPG. What exactly is still recoverable on account of LPG from the government? Any numbers on that?

VRK Gupta: We have disclosed it in the results. Once again, I will repeat. As on March '23, we have a negative buffer of around Rs. 850 crores. During this quarter, the entire Rs. 850 crores we have recovered and part of revenue from operations we have shown due to the good favorable prices of LPG. As on 30th June 2023, there is no negative buffer. Whatever available is a positive buffer only, which we have not recognized in the revenue from operations. Otherwise, on cumulative basis, as of 30th June 2023, there is no negative buffer for LPG.

Moderator: The next question is on the line of Hemang Khanna from Nomura. Please go ahead.

Hemang Khanna: Thank you for taking my questions; I have a couple. Firstly, for the Mumbai Refinery, what would be the total share of the Russian crude sourcing which was done in this quarter? And secondly, could you please reiterate what was the overall utilization for the petchem project in this quarter? And how much was the GRM benefit if any?

VRK Gupta: One is, Mumbai refinery we cannot give exact number in terms of the Russian crude composition. In fact, Russian crude also we have two grades. One is low sulfur as well as high sulfur. But overall directionally compared to other refineries, the Mumbai Refinery cannot process Russian crude much beyond around 20%. Out of 20%, a good amount of crude has been processed in Mumbai Refinery. But compared to other refineries, the Mumbai Refinery can process very significantly lower quantum of Russian crude. Second is, in terms of PDPP performance, the particular units have been stabilized to a large extent. During the current quarter also, the units have been operated around 70% in physical parameters. And the GRM contribution this quarter, the petchem margins are not comparably high as compared to other previous periods. Roughly, the GRM contribution on account of PDPP will be around \$0.4 to \$0.5 per barrel this quarter.

Moderator: The next question is from the line of Varatharajan Sivasankaran from Antique Limited. Please go ahead.

V. Sivasankaran: I wanted the refining inventory loss if you can give it now?

Rahul Agrawal: We don't publish the refinery inventory gain and loss.

VRK Gupta: Marketing inventory losses already we have provided. Refinery, we have not worked out separately anything.

Moderator: The next question is on the line of Sumeet Rohra from Helios Capital. Please go ahead.

Sumeet Rohra: Sir, firstly, I would like to congratulate you. It has been absolutely a splendid quarter. In fact, I will just take a few minutes. You have actually reported what annual profit you used to make, you reported it in a quarter. Now, we understand, of course, this has been for whatever happened last year. And sir, it is very heartening to know that when you said that we have not recovered last year's losses, my question is not to do about any refining or marketing, but my question is more generic. Today, as investors, obviously it is completely disheartening to see the market cap of BPCL trading at where it is. Obviously, the market is basically lacking confidence and investors are not enthusiastic about the prospects. If you can just spend a few minutes and basically reassure markets that profitability is the key focus which the government is concerned about oil marketing companies. That will basically go to reemphasize confidence among all the investors. Because, we are also doing a rights issue which clearly goes to show that we are obviously interested in increasing our equity, etc. Overall what I see is the government has done an extremely positive, but unfortunately it has not been recognized by markets. And being management, you can give confidence to markets and reassure markets that the Government of India is obviously concerned on the profitability and obviously they want these companies to be very prosperous. If you can just spend a bit on that, it will go a long way in reassuring markets and investors, sir.

VRK Gupta: You may be aware, this quarter's results, it is nothing but a reassurance to the market only and for the shareholders. And prospects if you see, on 2 sides you have to see. One is on the physical side how efficiently our company is running. From the refining side, you can see the refinery capacity utilization is much more than 115%. We have crossed the pre-pandemic levels and all the 3 refineries are running at full swing and 115% capacity utilization is not a small thing. Second, the yields have been improved at 84% levels. And all the refineries when low sulfur grade gives a good commercial sense, our refineries have taken a challenge and both the refineries – Kochi Refinery and Bina Refinery – their low sulfur production throughput is much much higher as compared to any other refineries. These are the positive indicators in terms of efficiencies of our operations. And second is on the marketing side you see, the volume growth is almost 8% compared to the previous quarter. These are the good indicators and reassuring our operational ability to give good assurance to the shareholders. Coming to the pricing, it is all market environment. For example, it totally depends on what is the outlook of the crude and what is the outlook of the cracks. Sometimes, yes, on a temporary period of time, the margins may be a little bit on the lower side, but one has to see on the longer period of time and over a period of time longer-term basis. Whether the company can make good amount of margins or not? Yes, I am sure. We can ensure for a long-term basis the margins will be generated.

Sumeet Rohra: But sir, there is just one thing if I can add in here, earlier when you started, you said that we have not recovered. Because, obviously, one thing is that we didn't make money last year and normally we make about Rs. 10,000 crores annually. If you see it that way, we have a long way to go in catching up. So, is it safe to assume that there is going to be no price cut? The only thing people talk about is that the OMC will take a price cut because elections are around the corner. That kind of thing has to change, right? If you can just give some more clarity on the pricing, then that will go a long long way.

VRK Gupta: But at this point of time, we cannot comment anything on the price cut. We have to wait and see how the crude prices will behave. If we feel the crude prices will stabilize at this level for a longer period of time, then we can take a call. But at this point of time, crude is fluctuating from $75 to $85. We are not sure whether it will stabilize at $85 level or it will go up to $90 level. We have to wait and see for a more period of time.

Moderator: The next question is from the line of Probal Sen from ICICI Securities. Please go ahead.

Probal Sen: I just wanted to understand a little bit more on the petrochemical capacity and expansion that you have planned. If you can kindly give some details in terms of the exact capacities planned and the kind of inputs that will be used for this project, whether it will be based on naphtha or gas or ethane. Any details on that front plus timelines. That was my question.

VRK Gupta: First, already we have 1 petrochemical complex at the Kochi Refinery. The capacity is around 329 TMT per annum. And the recent announcement of petrochemical complex at Bina Refinery, this is mainly commodity petrochemicals with a capacity of 2200 KTPA consisting of 4 major product categories HDPE, LDPE, and polypropylene along with downstream other petrochemicals. The total capacity of output of petrochemicals will be around 2200 KTPA and a little bit of normal petroleum products it will give along with capacity expansion of CDU from 7.8 to 11 MMT. With this 2200 KTPA plus existing capacity of 329, we will be having around 2.5 MMT of petrochemical size in our basket. Once the completion of this project, our petrochemical basket will be around 2.5 MMT. That is what we are aspiring by '28 once the project is commissioned.

Probal Sen: And what is the kind of inputs that we will be using? Is it dual fuel use? Would it have the flexibility to switch between naphtha and gas? Any idea that you can provide?

VRK Gupta: It is dual fuel only, but most of these configurations since we have a surplus naphtha available at some of the refineries, we want to take this naphtha to Bina Refinery so that we will get a more value addition. That is the objective. With this background, this project has been envisaged, by using more naphtha from our intermediaries.

Probal Sen: The economics, the returns that we are looking at, it's the standard kind of post-tax IRR that we have in terms of threshold? Or that study is still to be done, sir?

VRK Gupta: Generally, we don't take up any projects if the IRR is not reasonable.

Moderator: The next question is on the line of Siddharth Chauhan from B&K Securities. Please go ahead.

Siddharth Chauhan: Is it possible to give us information about what kind of plant shutdowns you have planned this year?

Rahul Agrawal: I will share it with you. Currently, Bina Refinery is going to shut down for the month of July. Then, we will have some units of Kochi Refinery going for shutdown in the month of August for 15 days. And then Mumbai Refinery, one of the CDU will go for shutdown at the fag end of September for a month.

Moderator: We'll move on to the next question that is from the line of Vidyadhar Ginde from Sohum Asset Managers. Please go ahead.

Vidyadhar Ginde: My question was there were press reports suggesting that you were trying to sign up a contract with Rosneft or one of the Russian companies for crude supply and the discount mentioned there was about 8% to the Middle Eastern benchmark. Could you give us some color on whether the discounts on Russian crudes have come down and whether the kind of volumes you were able to proportion of Russian crude you were able to use in Q1, will it remain at that level or is it likely to go down? Because, there are reports of Russia cutting their seaborne exports. If you could give us some color on that.

VRK Gupta: We are always open for any signing of term contracts with any of the suppliers provided commercially if they give good terms to BPCL. Yes, there were discussions happening with Rosneft but not yet concluded. In terms of the Russian crude discounts, as a trend-wise compared to earlier quarter sequential basis, the discounts have been lesser during this quarter and current times. But we are not sure how the discounts will behave – on which side discounts will increase or discounts will come down. But at this point of time, comparatively based on the sequential quarters, the Russian crude discounts are on a lower side compared to the previous quarter.

Vidyadhar Ginde: Was every month or so lower or the quarter was roughly similar? And what was the rough discount in Q1 – some range? And what's the proportion of Russian crude used in Q1?

VRK Gupta: It all depends on the cargo to cargo. For example, with respect to companies whenever there is a need of spot cargoes, generally M minus 2 they will go to the market. At a particular point of time if there is no demand for that cargo, the discounts can go up. For example, if there is a good demand from the buyer's side, the discounts will be on a lower side. So, we cannot comment what exactly directionally what would be the discount. Definitely it will be cheaper than the alternative crude where we are getting from on the Gulf side.

Vidyadhar Ginde: But did the proportion of Russian crude go up in Q1 compared to Q4?

VRK Gupta: You are saying Russian crude procurement?

Vidyadhar Ginde: Yes, as a proportion of your throughput.

VRK Gupta: As of date till June, our proportion is in a good number only, percentage of Russian crude production. If the discount continues at this level, still we can manage to take more Russian crudes. In fact, if the crude discount comes down, there is no commercial advantage of taking Russian crudes.

Moderator: The next question is from the line of Yogesh Patil from Dolat Capital. Please go ahead.

Yogesh Patil: Sir, news flow suggests that the PNGRB is strongly considering the regulation of oil product pipelines and planning to allow third parties to transmit the oil products through the pipelines. My question is how it will impact on our marketing of oil products, mostly on the petrol, diesel, or ATF case? Do you see any kind of impact on our market share in these products if the decision is taken by the PNGRB?

VRK Gupta: We have not yet studied what is the impact of the market share. We will come back. We have not studied what would be the impact.

Moderator: The next question is from the line of S. Ramesh from Nirmal Bang Equities. Please go ahead.

S. Ramesh: The first thought is, what is your sense in terms of the impact of Chinese refining throughput increasing and surplus exports on the refining spreads? And do you see the Chinese demand recovery supporting higher spreads in the coming quarters? And secondly, if you can give some color in terms of when you expect Kochi PDPP as well as CGD business to generate the expected return on capital employed in terms of timeline and the kind of profits you can generate over 2 to 3 years from CGD and the petrochemical business?

VRK Gupta: One is, for Kochi Refinery petrochemicals, already we have shared it had contributed around $0.4 to $0.5 per barrel of refining margins. The only reason for lower GRM addition on account of petrochemicals is that during this quarter – in fact the last couple of quarters – due to the lower demand of petrochemicals in China, the import parity prices have been on the lower side. We are expecting this trend will continue for a couple of quarters more. Once the Chinese economy revives and if the Chinese demand comes back and once the petrochemical prices go to the normal levels, definitely the margins of PDPP will go up. We are not sure how much time it will take, but definitely once the China demand goes up, the petrochemical prices will be stabilized; then the margins will be improved further. What is your second question?

S. Ramesh: It was on the CGD business in terms of the investments you are planning over the next 5 years. You said sixteen of these GAs are in commercial operations. What is the timeline to generate, say 10% to 15% ROCE on this investment? Is there any cash loss on this as of now?

VRK Gupta: As of now, we have already around 1,607 retail outlets where we have started selling CNG, where we are getting good margins. In terms of the return on investment, we have to wait for the completion of the total project. Then we will come to know what is the total CAPEX we have invested there and then we can work out. As of date, we are not foreseeing any cash losses for this business.

S. Ramesh: One last thought, if I may ask. In terms of your capital allocation, especially from the rights issue and the long-term investments in petrochemicals, when do you expect to be able to indicate what are the kind of commercial returns you will get on this investment, especially in the rights issue? Because, there is a timing issue in terms of at what price you issue, and to that extent, there will be a dilution of earnings. So, how do you expect to offset this dilution of earnings from this rights issue? If you can just give us your thoughts on that.

VRK Gupta: As a process, we are in the process of appointing the merchant bankers and transaction advisors. Maybe in the next couple of days, we will conclude an appointment of our transaction advisors and legal advisors. After that, we will come up with the calendar by what time we can come to the market for this rights issue. In terms of the capital allocation, already I have explained. We are working on it – which type of projects and how much capital we have to allocate from this proceeds. But definitely this entire Rs. 18,000 crores proceeds are meant mainly for net zero ambitions, energy security, and energy transition. In terms of the energy security and energy transition, definitely the returns will be in the normal course of business only. Only in terms of net zero ambitions, we may have to see what amount we have to allocate; because, one is on the obligation side, we want to go for a net zero. Returns point of view, at this point of time, we are not sure what project we have to take it up. Once we complete this allocation, then we will come back and we will share what type of allocation we will keep it to the net zero and for energy transition and energy security.

Moderator: The next question is from the line of Kirtan Mehta from BOB Capital Markets. Please go ahead.

Kirtan Mehta: First question is, in terms of the Russian crudes usage, if the Russian crude prices cross USD 60 per barrel, would we be able to continue to make payment using the current mechanism or is there a risk that that could reduce the usage of Russian crude in our refineries?

VRK Gupta: Based on our experience, once the price is crossing beyond the threshold, we have faced a little bit payment issues earlier. Now we have to wait and see for the next cargoes when the payment dues are happening. At least for the time being, we are not foreseeing any problem because now more banks are ready for making the settlements. So, we have to wait and see. As of date, there are no payments which are pending for settlement. We have to wait and see. In case really if there is any purchase price beyond the price cap, see if there are any issues or not.

Kirtan Mehta: Second question was about the E&P business where could you share more detail about the status of Mozambique? Is there any reassessment of CAPEX done and when is basically the force majeure likely to lift off? And also on the Russia side, are we sort of started to receiving the dividends or are there any payments pending there?

VRK Gupta: Only on the Mozambique side, some positive discussions are happening. In fact, recently, 2 operator level committee meetings have happened. So, most probably we are expecting in the next 1 or 2 quarters, the work may restart. But officially, the main operator, lead operator, Total Energies, they have to announce after taking consensus from the operators. Yes, definitely there will be an increase of the project cost because there was a delay of around 3-1/2 years in the project. There will be an increase, but how much and what extent, what are the timelines, not yet finalized. Once the operator level committee, if they have finalized the project cost increase and revised timelines, we can share that. And second, in terms of the Russia, yes, whatever proceedings for BPCL portion around $130 million is pending at Russia, they are not in a position to declare the dividend. The proceedings have not moved out of Russia. Our stake will be around $120 million to $130 million.

Moderator: The next question is from the line of Vikash from CLSA. Please go ahead.

Vikash: I wanted to understand and confirm the accounting for LPG margins from here on. Since there is this surplus mechanism, is it correct to assume that from here on, the accounting will not be more than whatever is the fair margin and whatever is the surplus will not figure in the income statement but will be simply taken to reserves and maybe used sometime later whenever there is a shortfall? That is first. Secondly, I also wanted to ask a little bit more details on Mozambique. Maybe if you can answer this and then I can ask the Mozambique bit.

VRK Gupta: As an accounting practice, there is no change of accounting practice. Whenever there is a positive buffer, we never take it to the revenue from operations. As a government scheme, current scheme, whenever there is a positive buffer; for example, if we are recovering more than the price, that price, we never take it as a revenue from operations. This is the accounting convention we are following in the last couple of years. There is no change. And this will continue also. But the current scheme of things for LPG, if there is any positive buffer, it will be outside the P&L. It will be kept outside.

Vikash: And that will be used to offset whenever there is a negative buffer. Then, that will come inside the P&L?

VRK Gupta: Right. That is the current mechanism.

Vikash: The other thing that I wanted to check on Mozambique; could you just remind us where were we in terms of financing, in terms of certain initial heads of agreements in terms of offtake? Would all of those be valid or you'll have to kind of redo all of that work when the project development restarts?

VRK Gupta: One is on the project financing side. Whatever project financing it happened for $15.4 billion, as of date, it is valid. They got the time extension. Now the question is on the revised project cost – whatever be the number – again they have to approach all the lenders community. But positively, they got good assurance of the lender community. The revised project cost, they may get the approvals. So, the project financing side, as of date, it is valid. Whatever required money for the project from our share, it will be drawn down from the project financing side. Second is, sales contracts and whatever offtake agreements, as of date, it is valid. Whatever we have signed the agreement, that is valid.

Vikash: And if you could remind us roughly, was each partner doing his own share of agreements, or was it being done as a consortium?

VRK Gupta: It's a consortium with respect to buyers. They will go to the consortium and they will take that agreement.

Vikash: And this was two trains, right? That's roughly a little less than….

VRK Gupta: Yes, as of now, there are 2 trains. This project is for 2 trains, the current project.

Vikash: That's a little less than 10 million tonnes, right? You were looking for around 11 million tonnes.

VRK Gupta: 6.44 x 2, so around 13 million tonnes.

Vikash: And the duration, as you understand, once you get to day #0 of start of the project development, is it 3 years or is it a little more than that?

VRK Gupta: We are hopeful for 3-1/2 to 4 years.

Vikash: But there has not yet been any formal announcement by Total, right?

VRK Gupta: Not yet. But we are hopeful in the next couple of months, at least some announcements can come.

Moderator: The next question is from the line of Bhaskar Chakraborty from Jefferies. Please go ahead.

Bhaskar Chakraborty: You had indicated that you were looking at 1.4 to 1.5 lakhs of CAPEX over the next 5 years. Does that mean that from the next fiscal, we are likely to see Rs. 25,000 crores to Rs. 30,000 crores of annual CAPEX?

VRK Gupta: The major peak CAPEX will start not from the next year but '25-26 onwards, you can see a huge CAPEX. Current year, our target is Rs. 10,000 crores. But we are expecting it will cross beyond Rs. 10,000 crores. But next year also, it is not at that level of Rs. 25,000 crores; somewhere around Rs. 15,000 crores to Rs. 17,000 crores. That is what our expectation is. But '25-26 onwards, the peak CAPEX is going to start, mainly for the petrochemical complex. The year #3 will be the major CAPEX we have to incur. This year and next year, the CAPEX allocation will be lesser only for the petrochemical project. But year #3 will be the major CAPEX we are going to incur, year #3 and #4 onwards.

Bhaskar Chakraborty: Does that mean that there will be a large accretion in debt coinciding with this? Because, this is almost 3x the annual CAPEX run rate you have had in the past.

VRK Gupta: That is the reason some portion of our requirement we are planning for the rights issue. Definitely we have to go for the borrowings. I am not saying that we cannot go for the borrowings, but the debt levels our aspiration should be keep it at a lesser leverage level, not crossing beyond a certain level. Maybe our aspiration will be around 0.8 to 0.9 level of debt equity even after completing of these projects on a standalone basis.

Moderator: The next question is from the line of Vivekanand Subbaraman from Ambit Capital Private Limited. Please go ahead.

Vivekanand Subbaraman: I just had 1 question with respect to the dividend payout, the philosophy with respect to dividend payouts. Last year, I understand the profitability was depressed due to the fuel prices being frozen and abnormal energy situation. How should we think about the dividends considering your CAPEX plans which are substantially elevated, especially from year #2 and year #3?

VRK Gupta: We have a dividend distribution policy. Our endeavor always is that 30% of the profit should be distributed as dividend or at a 5% of the net worth. That is our endeavor every year. We try to give returns to the shareholders in terms of dividend distribution at least a minimum of 30%. Even by taking up this much of large CAPEX for the next 5 years around Rs. 1.5 lakh crores, we are still hopeful we can distribute that level as per the dividend policy. If there is any change in the policy, then we can communicate. As of date, our endeavor always is to comply with our policy.

Vivekanand Subbaraman: One last from my end. As far as your CAPEX is concerned, because it is spread out, would it mean that the rights issue money collection will also be spread out? Or has that not yet been decided?

VRK Gupta: As of date, the entire exercise is yet to start. We are just in the process of appointing our transaction advisors and merchant bankers. Based on their workings, then accordingly we can work out what is the timeline; whether it is a single time or multiple times we have to receive, we have not yet concluded anything on this.

Moderator: The next question is from the line of Vipulkumar Shah from Sumangal Investments. Please go ahead.

Vipulkumar A. Shah: Can you give the exact percentage of Russian crude used in all three refineries and the discount which we have got to the reference prices?

VRK Gupta: Once again I am saying the same thing. Because we cannot give any exact numbers, I can give what percentage of crude our refineries can process because everything depends on what is the availability of Russian crude based on the timelines. For example, for X period of time, for example a particular month if I need some X cargoes; if available in the market, then I can take X cargoes and process. Many of the times, our requirement and market supply may not match. So, we cannot give exactly what would be the Russian crude we can process. But on an average directionally, we can take around 30% to 40% all three refineries put together, we can process Russian crude.

Vipulkumar A. Shah: But at least you can give what you have done in the last quarter? That is my point.

VRK Gupta: I am giving the range. In this particular range, we can work on.

Vipulkumar A. Shah: And what was the discount?

VRK Gupta: Discount is a commercial term. Generally we don't disclose whatever discounts we got it.

Moderator: Ladies and gentlemen, we will be taking the last question that is from the line of Vishnu Kumar from Spark Capital. Please go ahead.

Vishnu Kumar: A few questions surrounding the rights issue. When this Rs. 30,000 crores was allocated in the budget, it appeared that probably some part of the losses was indirectly getting funded through the rights issue, at least when the government provided. Now that we have indirectly recovered a good amount of the losses, i.e., last year, can there be a rethink whether this money is required? That is one. Second is that while we have said a couple of purposes with which this rights issues which is the net zero, energy transition, and energy security. Can you give us a specific split of amounts that you already have in mind for this? Why this question I am asking is energy security in the past we have not really had great successes in terms of our exploratory investments. Exploratory we had, but at least in terms of the capital returns either from Mozambique which was supposed to come in '17-18 or even Wahoo, we have not had much of an investment. So, trying to understand, rather we have focused more on the downstream and probably let ONGC and OVL do the energy security part. Some thoughts on this point would be helpful.

VRK Gupta: This is Rs. 18,000 crores rights issue. Whether we need it or not, to answer your question, definitely we need because such a large CAPEX investment projects we are having and expecting around 1.5 lakh crores. We don't want to leverage ourselves to a large extent. We want to moderate our leverage. That is the reason we need money. Secondly, in terms of the capital allocation, whether exploration…. why do you want to put more money? We are not going for any new blocks or new investments. We have 2 major investment blocks. One is in Brazil and one is in Mozambique. That has crossed the exploration stage to the development stage. So, we are continuing these projects only. It requires a large amount of investment. That is one reason some part of capital allocation will happen for these 2 blocks under energy security. Energy transition, you know, almost 25 GAs we got the licensing. This requires a huge capital requirement. So, under energy transition, some amount of capital definitely we need to allocate for the CGD business. In terms of Scope 1 and Scope 2 emission reductions, we have a plan by 2040, how much capital outlay it is required. Somewhere roughly we need around Rs. 90,000 crores to Rs. 1 lakh crores. We have not yet finalized what is the exact amount and what type of project, but the timelines are around next 15 years we have to work towards. We have to start the journey in terms of the net zero, Scope 1, and Scope 2. Some amount definitely we have to allocate for these projects. Exact project-wise allocation, we are in the process of working on it. At the time of rights issue application, we will share that information.

Vishnu Kumar: But can there be a fungibility of the funds that you will raise for your petrochemical plants also or is it necessarily going to only those that you will mention in the rights issue?

VRK Gupta: That is what I said. We have not yet concluded whether how much amount we can give it to petrochemical project also or do we need to go for a project financing. We are yet to conclude on that which route we have to go.

Vishnu Kumar: Rough timeline for the rights? In the next couple of quarters you want to conclude or….?

VRK Gupta: Shortly we will communicate what would be the timelines.

Moderator: Ladies and gentlemen, that was our last question. I now hand the conference over to Mr. Harshavardhan Dole for his closing comments.

Harshavardhan Dole: Firstly, I would like to thank BPCL's management for giving IIFL an opportunity to host the call. We really appreciate, sir. Also, ladies and gentlemen, I sincerely thank you for participating in this call. In case any of your questions are unanswered, you can either drop in a line to me or to the BPCL investor relations team and I am sure they will look forward to address those issues. Sir, any last remarks that you would like to make?

Rahul Agrawal: On behalf of the BPCL team, I thank all the investors for taking part in this con-call. Also, I thank IIFL Securities for organizing this call. We look forward to meeting after the next quarter's results. Thank you everyone.

Moderator: Thank you, members of the management team. Ladies and gentlemen, on behalf of IIFL Securities Limited, that concludes this conference. We thank you for joining us and you may now disconnect your lines.