"Bharat Petroleum Corporation Limited

Q2 FY '24 Results Conference Call"

October 30, 2023

MANAGEMENT: MR. V.R.K GUPTA – DIRECTOR FINANCE – BHARAT PETROLEUM CORPORATION LIMITED
MR. PANKAJ KUMAR – EXECUTIVE DIRECTOR, CORPORATE FINANCE – BHARAT PETROLEUM CORPORATION LIMITED
MRS. SRIVIDYA – CHIEF GENERAL MANAGER, CORPORATE TREASURY – BHARAT PETROLEUM CORPORATION LIMITED
MR. RAHUL AGRAWAL – SENIOR MANAGER, PRICING AND INSURANCE – BHARAT PETROLEUM CORPORATION LIMITED

MODERATOR: MR. VARATHARAJAN SIVASANKARAN – ANTIQUE STOCK BROKING

Moderator: Ladies and gentlemen, good day, and welcome to Bharat Petroleum Corporation Limited Q2 FY '24 Results Conference Call hosted by Antique Stock Broking. As a reminder, all participant 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 any assistance during the conference call, please signal an operator by pressing star, then zero on your touchtone phone. Please note that the conference is being recorded.

I now hand the conference over to Mr. Varatharajan Sivasankaran from Antique Stock Broking. Thank you, and over to you, sir.

Varatharajan S.: Yes. Thank you, Akshay. Good afternoon, everyone. It's my pleasure to welcome all the participants as well as the management of BPCL to the results conference call. From the management side, we have Mr. V.R.K Gupta, Director Finance; Mr. Pankaj Kumar, ED Corporate Finance; Mrs. Srividya, CGM Corporate Treasury; and Mr. Rahul Agrawal, Senior Manager, Pricing and Insurance.

We request Mr. Gupta to give a short brief on the results and then we can move on to the Q&A. I would like to hand over the call to Mr. Gupta now.

Rahul Agrawal Thank you, Mr. Varatharajan. On behalf of the BPCL team, I welcome you all to this post Q2 result con call. Before we begin, I would like to mention that some of the statements that we will be making 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 result review, please restrict your questions to the Q2 results. I now request our Director Finance, Mr. V.R.K Gupta, who is leading the BPCL team for this call to make his opening remarks. Thank you, and over to you, sir.

V R K Gupta: Good afternoon, everyone. Welcome. I hope you were able to go through our results for the quarter gone by. Before talking through the BPCL results, let me touch upon the macroeconomic factors. High and volatile energy prices and the ongoing geopolitical tensions, persistent supply bottlenecks and surging inflation have emerged as a major concern for the global economy. Crude oil prices continue to remain volatile due to the recent Israel-Hamas war.

The Indian basket of crude oil has increased substantially during the quarter-to-quarter from $77.71 per barrel to $86.68 per barrel due to extension of crude production cuts by Saudi Arabia and Russia until December and the rupee had been hovering around INR82, INR83 range. IMF retained its global growth for cash for '23 at 3%. However, revised it downward to 2.9% for '24, and India GDP grew by 7.8% in Q1 and is expected to be in the range of 5.7% to 6.7% for FY '23, '24, according to various agencies.

Moving to BPCL performance. Our refineries have continued their stellar performance in both physical and financial parameters during this quarter. Bina Refinery went for a planned shutdown in the month of July. However, we were able to maintain the throughput for all three refineries put together at 9.35 MMT for the quarter, which is at 105% of the nameplate capacity, even when refinery has gone shutdown. Distillate yield was at 84.06% during the quarter, against 85.73% in the same quarter last year due to shutdown at Bina Refinery.

Percentage of high sulphur crude processing in refineries was 75% during the quarter, against 73% same quarter last year. The capacity utilization for PDPP plant at Kochi Refinery was around 73% during the quarter. Kochi Refinery processed two new grades of crude, taking the total crude basket to 108 grade. There were sharp increase in fuel cracks during the quarter due to global supply dynamics and geopolitical issues. The HSD Singapore cracks increased to $28.8 per barrel in Q2 from $15.5 per barrel in Q1 and MS Singapore at $13.2 per barrel in Q2 from $12.07 per barrel in Q1. Accordingly, BPCL's reported GRM of $18.49 per barrel for Q2 against $12.64 per barrel in Q1. This is before factoring the impact of Special Additional Excise Duty and road and infrastructure levied with effect from 1st July 2022.

On marketing side, shift of volumes back to private players have resulted in lower growth in MS for PSU industry and degrowth in HSD. However, BPCL has registered healthy growth in core retail sales by gaining a market share of 0.36% and 1.82% in MS and HSD, respectively, among PSUs. On an overall basis, there was sales growth of 6.5% during the quarter year-on-year basis.

The main product MS, HSD, LPG, and ATF registered a growth of 4.1%, 1.1%, 2.3% and 2.3% respectively. However, the industrial products have grown at 33%. We estimate that the retail MS demand growth will be similar for the rest of FY '23-'24. However, demand for HSD and other fuel sensitive to industrial activity are expected to grow at a modest rate.

We plan to add around 1,000 more retail outlets '23, '24. During first half, we have added 300 new retail outlets. We have recently issued advertisement for 14,273 new retail outlets spread across the country for capturing more market and increasing our presence.

We'd like to highlight some of our marketing initiatives during this quarter. To strengthen supply chain in eastern part of country, we have commissioned Bokaro Depot in Jharkhand with a capex of around INR 250 crores. We are in process of opening through three new depots in North-eastern states to strengthen our supply chain and increase our presence in NE.

KSPPL, LPG pipeline from Kochi Refinery to Palakkad Terminal with a length of 150 kilometres was successfully commissioned. Our co-branded SBI credit card has reached to a customer base of 2.9 million cardholders. We have rolled out the quality challenge Zero Ka Dum initiative with the aim of guaranteeing that all cylinders in the market, LPG cylinders, are entirely free from defects which would help in improving trust among the customers and also enhance process efficiency in the value chain.

To drive inclusivity, BPCL launched Silent Voices. The path-breaking initiative in collaboration with Youth4Jobs to promote inclusivity at selected retail outlets in Phase 1 on 15, August 2023, which will pave way for inclusion of speech and hearing-impaired people as DSMs or DSWs at retail outlets.

Under gas business. Construction in our 25 GAs is in full swing. Out of proportionate minimum work program target of 8,488-inch kilometre pipeline till 30, September 2023. We have already crossed the MWP target, and completed 16,815 inch kilometre steel pipeline, and we have completed 452 CNG stations, again MWP target of 119 CNG stations in our geographical area, where we got authorization under various CGD bid rounds. However, we are lagging on PNG connections. The commercial sales have started in 24 GAs till date out of 25 GAs what we got. We currently dispense CNG in 1,640 retail outlet, and further by the financial year end, we aim to add another 500 CNG facilities in our existing MS/HSD retail outlets.

In line with BPCL commitment for NetZero at Scope 1 and Scope 2 level emissions by 2040. We have taken up multiple projects in solar and wind energy. During the quarter, 18-megawatt solar plant at Bina Refinery was commissioned. As on date, we have total installed renewable energy capacity of around 64 megawatt and we have projects in progress for about 190 megawatts with an estimated capex of around INR1,400 crores in various locations across the country. And our aim is to reach 1 gigawatt in the short term.

We are also in process of setting up a green hydrogen production unit and refuelling station at Kochi to supply green hydrogen to buses. We also have plans to put up around 26 CBG plants in the short term. We have approached various municipal authorities for the same.

As briefed in the previous con call, our Board has approved a downstream petrochemical complex and refinery expansion project at Bina Refinery with a capital outlay of INR49,000 crores. We are pleased to inform you that Honourable Prime Minister on September 14, laid the foundation stone for this project.

As part of our brand promotion activities, we have brought on board cricketing legend and current head coach of the Indian cricket team, Mr. Rahul Dravid, as the dynamic new face of our BPCL brand. Rahul Dravid, fondly known as Mr. Dependable, he is not only cricket legend, but also a symbol of dedication and honesty. BPCL as brand defines honesty and dependability at its core virtues qualities that are essential to succeed in cricket, in business and society in general.

Finally, let me brief on the financial performance. We have secured highest ever profit after tax for half year at INR19,052 crores. For quarter 2, the revenue from operations stood at INR1,16,594 crores. The profit after tax stood at INR8,501 crores, mainly due to better crude mix coupled with higher refining cracks. The negative buffer of LPG as on 31, March 2023, about INR849 crores has been recovered fully and the current buffer is positive. We have a capex target of around INR10,000 crores for the full year. We have achieved already INR5,191 crores capex during first half year.

Our gross borrowings as of 30, September stood at INR22,568 crores as compared to INR27,939 crores as on 30, June 2023. Sequentially, quarter-on-quarter, there is a reduction of INR5,000 crores of borrowings. Also, we have cash and cash equivalents of INR5,028 crores, and bank balances of around INR11,000 crores and other investments, including oil bond, we have around INR6,179 crores. Our consolidated gross -- borrowing stood at INR47,520 crores as on 30, September. The debt-to-equity ratio as of 30, September 2023 reached 0.32 as compared to 0.45 as on 30 June 2023 on gross borrowing basis.

Our standalone net worth, as on 30, September has increased to INR70,328 crores, with a book value per share of INR324. Earnings per share for the half year was INR89.47.

I now invite for questions and for any clarification. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Probal Sen from ICICI Securities. Please go ahead.

Probal Sen: Just a couple of questions. One was with respect to the GRM performance, and congratulations on this kind of strength being shown. Just wanted to understand if you can just explain to us where this outperformance against the Asian benchmark is coming from, specifically if we look and thankfully you disclose refinery-wise performance, the kind of gap between Bina Refinery GRMs versus any other refinery in India is pretty stark. So, if you can just get some handle sir, on where this outperformance is coming from? Whether it is coming from favourable crude mix or there is some inventory gain also which you may not disclose, but are those basically the factors that are driving this?

V R K Gupta: Two parts I will explain about this refining margins. The quarter gone by July to September, everyone is aware that cracks itself has improved compared to sequential quarter. The diesel cracks has significantly improved during second quarter. That is the first thing actually all the refining margins have improved.

The second, mainly for the Bina Refinery in terms of refining GRM point of view, our refinery at Bina can take high sulphur grades up to 90% -- 95% range you can process high sulphur grades. And in product slate also if you see in the Bina Refinery, we can take a very big swing in terms of MS and HSD. Our HSD product can take up to 57% of product slate, we can take it as HSD. When diesel cracks are very high, we can take up to 57%, which helps the GRM Bina Refinery. And the major other influencing factors for Bina Refinery is our crude mix.

When we see the crude mix, the higher crude in case of Russian Urals, we are competitive with the product costing as compared to other grade, which also helped the higher refining margin in Bina. And even Cochin also -- if you see the Cochin also, the product slate in terms of diesel, we can take up to 45% of diesel production. And there also we can process more Russian Urals, where the competitive pricing is not from the Russian Urals at R&D. These three, four influencing factors, which has improved the refining margin.

Probal Sen: Perfect. Sir, that's very useful. If I can ask a small follow-up. Is it possible to give us a sense of diesel, gasoline and ATF, these three, would be roughly how much of our overall product take as a percentage? Just a sense would for Bina, Kochi or overall, whatever you want to share?

V R K Gupta: Okay. Roughly, you can take Bina, 57%, and Cochin we can take up to 45% and Mumbai also, we can also take 45%, roughly.

Probal Sen: That's for diesel. I'm saying, sir, diesel, gasoline and ATF combined. I'm just talking if you share that number?

V R K Gupta: We will share.

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

Sumeet Rohra: Firstly, many, many congratulations on a superlative performance. I mean I'll just take a few minutes, sir. You have actually paid INR6,300 crores tax, which today, companies are not even reporting on revenue. So many, many congratulations on a superlative performance. And it's clearly showing that BPCL as a company is going to new heights.

Now sir, I have a few things, which I would like to bring to your attention and a few suggestions rather I would like to talk about. Sir, firstly, is that this government inflow or whatever was spoken about actually there are press reports stating that the oil companies don't need that. So, our clarification to that level should be issued with immediate effect that there is no need for this because we are virtually now a debt-free company.

And management should also consider paying out dividend because I believe IOC, your PEER company is also meeting for results and paying out dividend tomorrow. And sir, I have a suggestion that we should also focus on buyback of shares. Because, sir, I would like to highlight this to you that today, in the public sector, there are 72 or 75 companies. And all the public sector companies in India today have got re-rated except for the oil marketing companies, okay?

Now please hear me very carefully. All the public sector companies in India have gone up by 3x to 5x in the last three years. But unfortunately, the oil marketing companies in the public sector space are actually down by 50% to 60%. So, there is absolutely no reason for this to happen. It is purely a perception-related issues, which is basically clouding this sector. And in fact, this sector is doing the best.

Today, sir, it is absolutely unthinkable that a company of BPCL's calibre is trading at a 3 PE. I repeat. I mean Bharat Petroleum cannot trade at 3x price-to-earning ratio after having an ROE of 25. I mean BPCL along with Indian Oil and along with HPCL are one of India's best companies which are part of the Fortune 500 companies globally. And there is no reason to say that these companies should trade at 3 to 4 PE, but the perception is a problem. And the perception can be cleared with the help of you and the other companies and the Government of India and these companies will re-rate significantly.

So, sir, I really would request you to please focus on integrated margins rather than focusing on refining separately, marketing separately because it has been construed very negatively because people are there digressing and talking about, refining mess, marketing beat, vice versa. And the company is not realizing its true intrinsic value. So, my humble suggestion to the management of a Fortune 500 company along with the government is, please focus on integrated margins, please focus on creating wealth for shareholders in terms of liberal dividends and buyback because we have been a good corporate citizen. We have saved the country when the times are tough, but we should also focus on the investors.

And I sincerely wish you all the best. You have done an exemplary job. And I do not have any more questions to tell you, but only few suggestion that investors should truly recognize the true value of this company because today, this company is owned by the government. So, if this company re-rates it benefits the people of India. So, I humbly suggest that please consider a buyback of shares with immediate effect and liberal dividend payouts and please, sir, focus on integrated margins because it will do a world of good to you. I wish you all the best, good luck and God bless you, sir.

V R K Gupta: Thank you. Thank you for all your suggestions. We have noted down. Thank you.

Moderator: The next question is from the line of Mayank Maheshwari from Morgan Stanley. Please go ahead.

Mayank Maheshwari: A couple of questions from my end. I'll just start with a bit on the capital allocation side. If you can kind of give us a bit of a big picture view around how are you thinking over the next 3 years in terms of total capital and the capex deployment. You talked about the petrochemical complex. You talked about the new energy side. Can you just give us a sense of how we will be deploying the capex over the next 3 years? And what kind of returns are you kind of expecting out of that?

V R K Gupta: You may be aware in our earlier con call also even in the AGM also, we have announced certain various major projects. Our capital outlay for the next 5 years, we have work growth around INR1,50,000 crores. The major chunk of this capital outlay will go for refinery and petrochemicals, around INR49,000 crores already we have announced it one petrochemical complex at Bina. And around INR26,000 crores, it will go for exploration and production. Already there are 2 blocks we have in Brazil and Mozambique, already there are certain commitments, it requires around INR26,000 crores. And marketing infrastructure and pipelines, we have planned around INR25,000 crores in next 5 years.

And for the CGDs where we have got around 25 GAs, we had the capital outlay requirement around INR26,000 crores. And we are planning around a minimum 2 gigawatts of renewables where the capital outlay we have allocated INR12,000, and other mainly for equity investment with JV companies and various RO's we have to take our pipeline around INR13,000 crores we're going to spend.

Around INR150,000 crores already, we have announced major projects in the next 5 years. This is only the projects, what we have announced in terms of the net zero ambitions where we want to reach by 2040 we want to become a net zero. There we have assessed what is the total carbon emissions as of date, the carbon emission will be around 10 million metric tons currently.

And with the new projects, it will go up around 16 million metric tons. It requires additional around INR95,000 crores to INR100,000 crores of capex requirement that we are not yet planned the phasing of this additional requirement. Otherwise, this INR150,000 crores, we have a capital outlook for the next 5 years. In terms of the returns generally BPCL, we don't take any projects if the returns are not reasonable. We always -- our endeavour is to take good projects with good returns.

Mayank Maheshwari: And sir, I think just on the focus on the petrochemical side. Obviously, you talked about last time in the conference call of integrating and how it will work with the Bina side. But now we are starting to see even Petronet today basically come out and said that they are trying to do a PDH plant as well. So, from a timing perspective, execution perspective as well as how will you differentiate as BPCL in your petrochemical side? Can you just give us a bit of a subjective around that?

V R K Gupta: In case if you see petrochemical segment, the product portfolio is wide. When Petronet telling that they are planning for PDH, in our product portfolio PDH is not there. So, our product portfolio is Polypropylene and HDPE, LDPE and second Benzene and Toluene grades. So, I don't think it creates any competition between Petronet LNG and BPCL. See, what our project we have in we say that is a different product portfolio as of date.

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

Sabri Hazarika: Congratulations on good numbers. So, I have three questions. The first one is on your balance sheet. I think your creditors as well as other current liabilities both have gone up significantly, which has led to this cash generation. So, any specific reason behind that? Anything like any one-offs? Or do you think it is sustainable?

V R K Gupta: Generally, credit -- creditors always when you compare it to March '23 and September '23, there is one major element called excise duty. For March '23, the excise duty we paid before 31st March. Whereas for September, we have at least 3, 4 days' time to make the payment. The payment will happen in October. That is the real event and quarterly if we see always there is a gap of around 7000 for excise duty liability, that is one reason major variation.

And in creditors -- creditors it all depends on what inventories we have procured otherwise credit terms are same only, sometimes if the inventory position is going up. Maybe latest cargoes are available, with that where the payment is not made, which is not due, not made means, which is not due. It appears on the creditor, these two are the major reasons. I think nothing abnormal.

Sabri Hazarika: So, this is like your net debt has actually become zero on this…

V R K Gupta: So, we can interpret on stand-alone basis, not exactly zero, but closer to that target.

Sabri Hazarika: But is there any guidance of whether it can remain at zero? Or do you think -- I mean, of course, like not accounting for the new projects, but if everything remains same, it will remain at the these levels or do you think it's going to be coming...

V R K Gupta: Let us hope for the best because many things we cannot predict, how the crude prices will move...

Sabri Hazarika: Okay, sir. And no Russian payments are held up, right? That has been like made completely, right?

V R K Gupta: As of today, nothing is there beyond the due date.

Sabri Hazarika: Okay. Sir. And sir, second part of the question is basically on your renewable side. So can you give us some sense on what -- how much -- was it the kind of like profitability per EV charging stations you are making right now, now that you've got a sizable inventory of EV charging station. So, what kind of profitability is that? And second question is whether the green hydrogen tender of Bina Refinery has been awarded, or is it is still under deliberations? These are the two second questions.

V R K Gupta: One is on the EV charging station side; the capital outlay is not very big amount. In terms to the profitability, we are not expecting any good profits immediate basis. But at the same time, we want to create the infrastructure for long-term perspective. So as of date, if you ask that the capacity utilization of EV charging stations at the retail outlet, very, very minimal, very, very minimal.

So, we cannot estimate what will be the profitability immediately. But the objective of putting investment in this particular infrastructure is for a long-term basis. And second question is green hydrogen. Green hydrogen, we have refloated the tender for 5 MW, not yet awarded. The tender is in the process Bina.

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

Kirtan Mehta: Regarding the Mozambique project, could you give us the current status? And when do you expect the -- has the capex been finalized by the owners? And how the progress you anticipate on the project?

V R K Gupta: For Mozambique project, there is no change in terms of the force majeure, still it is under force majeure only. Something in terms of the revised project cost, there were discussions at the operating level committee at a group level, but not yet finalized what would be the revised project cost and what would be the time range for removal -- lifting of the force majeure. We are hopeful shortly maybe next couple of quarters, something positively it can happen. We are hoping that.

Kirtan Mehta: Right. And in terms of the INR18,000 crores right issues, has the plan for investment firmed up around that?

V R K Gupta: Yes, that is there already. We have submitted our application to SEBI. Just we are waiting certain approvals from the ministry and SEBI, accordingly this program is on as of date.

Kirtan Mehta: Sure. And would you be able to give us some more colour on the Russian crude usage in terms of the quarterly usage has it been able to -- are we able to maintain a similar level in Q3 despite the increase in the crude prices?

V R K Gupta: I cannot give exact numbers, we cannot share, but at least in the similar quarters what potentially we can process the Russian crude, at least we are closer to our potential crude processing, all three refineries put together.

Moderator: The next question is from the line of Ajay from Nuvama Capital. Please go ahead.

Ajay: Congratulations on a good set of numbers. Just want to get a sense in terms of after such a fantastic quarter, how are things shaping up in the current quarter so far in the month of October, meaning in terms of the cracks, are we seeing similar cracks? And how do you see that progressing on the marketing side as well?

V R K Gupta: At least in terms of the cracks, the gasoline a little bit moderated now compared to the Q2. Gasoil still it is commanding with good cracks, still it is as of date 28, 30 levels. But a little bit going forward, the cracks are not showing that much of strength in terms of gasoline. But still, we are hopeful the cracks will be commanding at a higher level only, except gasoline. We have to wait and see how the particular market movement happens after the winter, how the product demand goes for RLNG and what is the shift happen from RLNG to diesel accordingly the cracks will be decided. But as of date, still we are commanding good cracks.

Ajay: And on the marketing side, sir?

V R K Gupta: Marketing side, we are doing good growth. We are not expecting very good growth in terms of diesel. The diesel growth, we are expecting a moderated level, but MS growth will continue.

Ajay: So broadly in terms of the profitability, say suppose things stay where they are right now for the rest of the quarter, broadly, whatever we have delivered in Q2, more or less there can be a little bit of subdued, but you don't see a major decline as such, right, for the current quarter?

V R K Gupta: We generally don't give any guidance. But otherwise, based on the current crude prices a little bit worry is there, but it is not alarming.

Ajay: So, I'm saying we are not expecting some major decline, decline as such?

V R K Gupta: We cannot give any guidance, please.

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

S. Ramesh: Sir if you look at the marketing inventory gains, how do you explain the reversal from the loss in first quarter to the marketing inventory gain of close to INR1,497 crores since there is no change in the retail price. Just wondering how you have been able to book that inventory gain?

V R K Gupta: No, no, generally -- It is not any accounting gain. If you see, on an average when we maintain our INR40,000 crores of inventory, on every 15 days, if the particular marketing RTP changes based on the crude pattern. So just we want to highlight and calculate and inform to the shareholders how much in the entire profitability, what is the impact of the price increasing or decreasing impact on the profitability.

So, there is no separate gains we recognized at the end of the period end. You see, during a particular period, on account of my crude price movement and product price movement, what would the changeover of my inventory opening inventory impact on my sales on the profitability. That is what we workout and we give in additional information. How much on account of this inventory movements, inventory price movement, it has helped in the profitability.

S. Ramesh: Okay. So, if you look at your CGD business, you made very impressive progress. So, is it possible to give us some kind of timeline as to when we can see the commercial results in your stand-alone P&L? And what are the kind of EBITDA per unit of gas? And what are the kind of volume you expect to sell in your 24 GAs, which have gone in commercial operations, say, for the next two years to three years, is it possible?

V R K Gupta: At this point of time, we will not be in a position to give any estimation on the volume sales of CGD. What we can say is that in terms of creating the infrastructure, in terms of reaching the

MWP, we have worked out in full swing and we are achieving all the MWP targets, except the PNG connections. But definitely, if you see our projects in CNG, the number of ROs are going up. Slowly, the volumes will pick up.

At this point of time, very difficult to say, what will be the volume sale because you have to wait and see how much of vehicle conversion happens in those markets. We need some more time to assess exactly next couple of years what will be the volume pickup.

S. Ramesh: If I might squeeze in one last part on CGD. Once you have the entire 25 GAs in place, what is the final target for the number of CNG stations in the 25 GAs?

V R K Gupta: I have the ready number for the current year, we will share for full CGD...

S. Ramesh: Yes. Thank you very much, sir. Thank you. Have a good day.

Moderator: Thank you. The next question is from the line of Chinmay from Canara HSBC Life Insurance. Please go ahead.

Chinmay Gandre: Yes. Thanks for taking my question. So, my question is on the working capital side. You did explain the nitty gritties of excise duty. You mentioned basically the payment happens in October versus not in September. So, what would be the quantum of this payment related to the excise duty?

V R K Gupta: Generally, every month, we pay around INR7,000 crores -- around INR7,000 crores, INR7,200 crores, INR7,300 crores around. It depends on the refinery throughput on the particular month. Around INR7,000 crores you may take.

Chinmay Gandre: Okay. So basically -- so once that payment has been made, so your cash would have gone down by around that content, like around INR7,000 crores?

V R K Gupta: Right.

Chinmay Gandre: Sir, if I also look at the balance sheet, so basically there is a stock movement in two of the current liability side and one will partially be attributed to INR7,000 crores, which you mentioned, that is maybe sitting in other current liabilities. But even there tax liabilities net is around INR4,600 crores -- INR4,400 crores odd, which was almost zero as of March '23. So, can you help us understand this?

V R K Gupta: The tax liabilities -- these are different liabilities you're referring; I think.

Chinmay Gandre: Yes, but it was zero as of 31, March 2023…

V R K Gupta: That is direct tax. That is income tax. Income tax March '23, since our profitability is very low, our advance tax what we have paid is sufficient to meet the liabilities. Whereas for this particular during this year, the six months profit, but our advance tax payment is on a lower side.

Chinmay Gandre: Okay. Fair, enough. That's it from my side.

Moderator: Thank you. The next question is from the line of Maulik Patel from Equirus Securities. Please go ahead.

Maulik Patel: Hello. Thanks for the opportunity. Sir, on the refining side, is that till the time we see this whatever the Russian oil which we are processing it. Currently, we are running that in a full optimized level? We cannot process more than that what we are currently doing?

V R K Gupta: At least we are pushing up to the potential level, what we can process Russian Urals, we are taking.

Maulik Patel: That could be at least for 30%, 40% of your total intake?

V R K Gupta: Roughly, all three refineries put together that range, that's the range.

Maulik Patel: That's the range. That range has been there for entire Q2, right? I think it was lower in Q1.

V R K Gupta: I'm not clear, please?

Maulik Patel: So that -- so we were -- I mean we were utilizing the Russian crude at a full potential in the Q2 quarter. Was this similar number there was for the Q1 also?

V R K Gupta: Yes, same number. There is no major change. There is no significant changes, maybe 2%, 3% here and there. Otherwise, we maintain the same.

Maulik Patel: Okay. Great. Thank you.

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

Probal Sen: Yes. Thank you for the opportunity again, sir. Just a follow up question in terms of the capital deployment plans that you mentioned. In terms of the Mozambique and Brazil plans, obviously, as you mentioned, those will entirely depend on whether the Force Majeure is essentially lifted.

And if we assume that in the next month or during this financial year, the Force Majeure is lifted and work actually begins, then what kind of timelines can we look at for the completion of the at least first two trains at Mozambique, assuming that the Force Majeure is lifted by the end of this financial year. Any sense you can give us?

V R K Gupta: Our ED Corporate Finance will give.

Pankaj Kumar: So, Mozambique, as per the original plan, which was done, the construction, the first LNG cargo was to come out in around 42 months.

Probal Sen: So, 42 months from the FID, sir, is that correct way to look at it?

Pankaj Kumar: So yes, that's right. So therefore, what's happening is -- now of course, we will have to reassess some of the preconstruction work was carried out before the Force Majeure was announced. So once the Force Majeure is lifted, around that time, the operator and the consortium will reassess their plans and would actually reassess the time for the first cargo. But this is the timeline, which I'm indicating is at the time of taking of the FID. So around a similar time is what we can expect.

Probal Sen: Got it. Sir, one more thing is, given that the disruptions that have happened and the delays that have happened, we read some reports that some of the subcontractors have been asking for a significant increase in the associated costs, and therefore, do you expect any major escalation in the overall project cost versus what the consortium had estimated maybe two years ago? Is that a fair way to look at it?

Pankaj Kumar: So as of now, the contracts with the EPC, EPCI contractors are preserved in so far as the contractual commitment is concerned. But yes, there is a possibility -- a strong possibility of reviewing the pricing of the commercial terms. And therefore, a price review would definitely be forming part of the entire review. It would also be encompassing in what phase and in what manner do we want to carry it forward. So, it will be a holistic review which will happen at the time of uplifting of the Force Majeure. Obviously, the commercials also would be a consideration in that regard.

Probal Sen: Understood. Sir, one last from me. Out of the 260 billion therefore how much is basically the E&P, pure E&P capex for Brazil? And how much is for the contribution to the Mozambique project estimation?

V R K Gupta: Brazil requirement is small only comparatively. But based on the original FID approval, Mozambique the project cost is around 14.5, our shareholding 1.45. Around 2 billion $ would be Mozambique and 1 billion $ would be Brazil at a broad level actually.

Probal Sen: All right. Thank you so much for giving the opportunity. Really appreciate. Thanks.

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

Vipul Shah: Hi, sir, can you give inventory gains in the marketing segment because I have not received your hand-outs?

V R K Gupta: The marketing inventory gain is INR1,497 crores, whereas comparative same quarter previous year it is minus INR384 crores. And for the full six months, it is INR427 crores for this year. But previous year it is INR755 crores for half year.

Vipul Shah: Okay, sir. Thank you.

Moderator: Thank you. Next question is from the line of Amit from Axis Capital. Please go ahead.

Amit Murarka: Yes. Hi, good afternoon. Just on capex, like you mentioned that the five-year plan is about INR1,50,000 crores, but I believe FY '24 capex is just about INR10,000 crores odd. So, when can we expect the capex to actually scale up to a higher number to kind of achieve that five-year plan?

V R K Gupta: So, you see, out of INR1.5 lakh crores, the major project is Bina Petrochemical complex. Definitely, year one, the capex total is very small only, maybe around INR600 crores, INR700 crores for Bina, but the peak capacity happens from year three onwards, maybe from '24, '25 -- '25, '26 onwards significant capex we are going to see.

Amit Murarka: Yes. So, like if, let's say, next two years or three years, you're only INR10,000 crores, INR15,000 crores. So, does it mean that like, it will be like INR40,000 crores, INR50,000 crores capex in year four, year five?

V R K Gupta: Maybe from year three onwards actually the capex jump will happen. Every year there maybe rough numbers on around INR20,000 crores plus after that 30000 and peak year will be five, year five.

Amit Murarka: Okay, sure. And all of these are like Board approved projects just to kind of clarify?

V R K Gupta: Major projects Board is approved. Second, renewables-related projects, we are just working on it. So, some of the projects yet to be approved with the Board. But overall capital outlay estimations are INR1,50,000 crores, out of which refinery, petrochemicals, Bina is approved, and BPRL already Board has approved, and the CGD around INR26,000 crores Board has approved. Around INR1,10,000 crores already Board has approved for the projects.

Amit Murarka: Okay. Thanks for the details. Also, like one small data question, like how much would the PDPP project be contributing Kochi Refinery now given that, this time all gaps will be stabilized and all?

V R K Gupta: Like it's PDPP in terms of physical, it is operating at 73%, good improvement in terms of plant reliability issue. And in terms of the profitability, it has added around $0.55 per barrel in terms of the GRM. But still, it is not sufficient to meet the operating expenditure of the PDPP. So, we need some more improvement in terms of profitability of PDPP.

But otherwise, at this point of time, in terms of physical performance, it has reached certain milestone. But profitability this quarter, even in the last quarter also due to the price margins are very low in terms of petrochemicals. So, this quarter also, PDPP, whatever we are and we have generally do not sufficient to meet the expenses.

Amit Murarka: Okay. Got it. Thanks. That's all from my side.

Moderator: Thank you. The next question is from the line of Vishnu Kumar from Avendus Spark. Please go ahead.

Vishnu Kumar: Good evening and thanks for the time. Sir. I just wanted to understand the opex cost per barrel across the three refineries. This could help us understand that?

V R K Gupta: Generally, opex, it ranges from $1.80 to $2.10. On an average, you can take all three refineries put together closer $2 this quarter.

Vishnu Kumar: Specifically for Bina, there is a pipeline related income and expenses, right? So, it should be -- if considering that it will be higher, if you could help understand that?

V R K Gupta: Even for Bina pipeline, which again, nothing is there data driven -- Bina pipeline we have added to our pipeline group, not with the refinery, if you see Bina Refinery, the operating expenditure for July to September is $4 mainly because the throughput is low this quarter because due to shutdown of almost 40 days shutdown, the operating expenses are higher.

So otherwise, if you see the six months average for Bina, April to September -- April to June, it is $1.84, July to September it is $4. Generally, it will be in the range $2 only. But only during this quarter, the refinery was shutdown, the throughput is not there and the operating expenditure is at $4.

Vishnu Kumar: So, this -- the pipeline related income and expenditure, it will go to the marketing side, is it? It's not part of the GRM?

V R K Gupta: Pipeline division, it's part of our Pipeline division. After the mid-year, after the Bina merger, it's part of pipeline division.

Vishnu Kumar: It is pipeline division. So, in our EBITDA, when you report since you have some GRM balance, it's between pipeline and marketing?

V R K Gupta: Yes, sure, definitely.

Vishnu Kumar: Understood, sir. And this INR22,000 crores debt number, if you could, sir, help us understand where this number in terms of different entities, where exactly these numbers are sitting that will be a little helpful?

V R K Gupta: INR22,000 crores is in stand-alone only. So, when you talk about group borrowings at consolidated, it is INR48,000 crores. The major borrowings of around INR24,000 crores is for BPRL, one of our subsidiary. There, the entire investments are an exploration blocks, mainly for Mozambique and Brazil. So, the total borrowings at BPRL level is around INR25,000 crores. Standalone is INR22,000 crores, BPRL is INR25,000 crores. These two are the major borrowings.

Vishnu Kumar: And the other INR8,000 crores, which is Ind AS adjustment is also sitting only on standalone?

V R K Gupta: Yes. That is only ROI liability. It's only ROI liability.

Vishnu Kumar: Understood, sir. The next couple of years -- would you think the capex -- and -- EBITDA is a volatile number, but at least our estimates, you're going to match your cash flows and capex or how should we look at it?

V R K Gupta: Cash flow will not match with the capex number, definitely, but we have to take certain leverage. But the reasonable leverage we definitely we have to take more borrowings from the capex is peaking at year three, year four. There, we have certain plans of taking the borrowings. But at least based on our understanding of cash flow and maintaining reasonable debt to equity levels, we can compare these projects.

Vishnu Kumar: You mean year three, year four, we are at FY'24. So '26 or '27, '28, you're expecting higher capex?

V R K Gupta: Peak capex -- when the peak capex happens, our cash flow is generally the incremental cash flows only comes after the commitment of the project. But during that interim period, definitely, our cash flow will be at a normal level, whereas our capex numbers are at a very high level.

Vishnu Kumar: If you can help us understand what will be the normalized number and peak number of rough cash flow payout over the next couple of years? What would be that number?

V R K Gupta: We cannot give any guidance on that normal numbers, because everything depends on your crude prices, margins, cracks, many things are influencing on these numbers. So, we don't provide any guidance.

Vishnu Kumar: Got it, sir. Thank you and all the best.

Moderator: Thank you. The next question is from the line of Nitin Tiwari from Phillip Capital. Please go ahead.

Nitin Tiwari: My question is related to the green hydrogen project that you mentioned that you'll be putting of 520 of the capacity. So, is that a capacity for internal consumption? Or there would also be a commercial distribution of this hydrogen? Related to that, what's our current hydrogen consumption?

V R K Gupta: There are two projects we are taking up for hydrogen. One is at Bina Refinery five megawatts, that is purely for our internal consumption. One more plant, we want to have at Cochin International Airport, that is for public purpose where we can refuel the buses, certain buses. But that is a very small plant refuelling can happen.

Nitin Tiwari: So, the Kochi plant is a very small plant. You're saying the five MMT plant, you mentioned the green hydrogen plant is for internal consumption.

V R K Gupta: Internal consumption, right, right.

Nitin Tiwari: So, what's our hydrogen consumption across three refineries right now?

V R K Gupta: We will share separately.

Nitin Tiwari: Sure sir, a clarificatory question, you mentioned that the current carbon emission is about 10 million tonnes, right, which will go up to 16 million tonnes with the new projects. So, the investment that you mentioned to mitigate this was INR1 lakh crores. Is that the right number that I know?

V R K Gupta: That is just a ballpark number. We have to yet to finalize the project and assess the project cost, but otherwise roughly this is a range we have to investment.

Nitin Tiwari: So sir, the capex that we have planned, the INR150,000 crores capex, does that not build in at least for the new projects of on commitment sort of carbon mitigation costs as well because these are the new projects we'll be putting ahead coming up in future so might as well build in the carbon mitigation costs as well and then assess the project?

V R K Gupta: We have started around INR12,000 crores for the carbon mitigation renewable projects in the INR150,000 crores. But all other projects, we said our target is by 2040, we want to make it net zero. So, still we have time so that we can allocate certain funds subsequently after three, four years, not now.

Nitin Tiwari: And lastly, sir, in terms of refining capacity, are you going to look at any expansion refining capacity going ahead from here or it will be operating at these levels? Because I am talking and I'm asking this question in the perspective of like the carbon mitigation and the green major that always openly spoken about. So, do you foresee that this refining capacity would be sufficient to meet our requirement for petroleum products? Or do you foresee a need for expansion of the refining capacity as we're going ahead?

V R K Gupta: So, one of our projects already Bina Petrochemical Complex includes a little bit increase of our refining capacity. So there, our refining capacity, we are taking from 7.8 MMT to almost 11.2 MMT or 11.3 MMT. So, there is little bit refining additional capacity will come from Bina. In other refinery, as of date we are not planning any expansion at this point of time, we are working towards because we have a little bit deficit in terms of marketing requirement and refinery throughput at this point of time. So, we are working on it, how do we bridge this gap between our refining capacity and market requirements. We are not yet finalized anything.

Nitin Tiwari: Sure, sir. Thanks. That's all from me.

Moderator: Thank you. The next question is from the line of Saket Kapoor from Kapoor & Co. Please go ahead.

Saket Kapoor: So firstly, regarding the advanced tax part, I missed your comment. We had made a higher tax payment in the cash flow. So, what should we take into account? What were you referring to, if you could repeat, sir?

V R K Gupta: I'm saying, on the balance sheet -- in the balance sheet the current tax liability March '23 it is 0 whereas September '23, we are showing INR4,300 crores. Just I'm explaining why this difference. In March '23, if you see '22, '23, the profitability, if you see the profits are very low. So there, the tax liability almost we have settled with the advance tax payout. Whereas current year, the advance payment is lesser than our tax obligations as of 30th September. That is the reason which has created a current tax liability in the balance sheet.

Saket Kapoor: Okay. So, when we take this INR1,848 crores under the cash flow as direct tax paid. This amount is pertaining to, our income pertaining to for this year only or does it contain any prior period item also?

V R K Gupta: '22, '23-year whatever tax liability, those tax liabilities we have settled against at advance tax almost. That is the reason there is no current tax liability.

Saket Kapoor: So, this amount is 45% of what the liability has to be, as on 15th September, we have to clear 45% of the tax liability?

V R K Gupta: 45% of our tax liability. Whereas we have not paid full advance tax liability. We have to wait and see full year; then accordingly we will settle the full tax liability

Saket Kapoor: Okay, sir. And for the capex part sir, we are also setting up, I think so, Oxo-Alcohol plant. What is the update on the same, sir? And how much capex has been involved for the same?

V R K Gupta: There is no such Oxo-Alcohol new plant. Already in the PDPP complex, there is a plant. We have two segments. One is Acrylates and Oxo-Alcohol. Both the plants are there. We don't have any plan of putting up a new plant for Oxo-Alcohol separately.

Saket Kapoor: Okay. So currently, we are selling, I think sir, the PP raw material to some of the Oxo-Alcohol players. So, are you directly competing, are we competing against now the end product also will be from our side?

V R K Gupta: No. We have our plant, but the feed availability is much more than the plant requirement. That is the reason we are selling into the market that PP. So, we are not planning any new plant for Oxo-Alcohol.

Saket Kapoor: Okay, sir. And lastly, sir as the other people have also mentioned about the distribution of the profits to the investing community. Sir, taking into account what the first half we have reported numbers, is it in the likelihood that we will adhere to the DIPAM policy of distributing cash to your investors either in the form of a buyback or dividend payout? Or is the right issue coming up is counterproductive to that view, how should one read into these profitabilities and your rights issue and the DIPAM policy. How should we align all these factors, sir?

V R K Gupta: I can brief about BPCL, even if you see in the last couple of years. We have always distributed dividend as a percentage of profit with good reasonable numbers. And our endeavour is always to comply with our DIPAM guidelines and as well as our own internal dividend distribution policy. It's only a timing, what time we distribute the dividend. And generally, we give good amount as incremental and balance amount as final. As a practice, we give good amount, reasonable amounts as dividend at distributions.

Saket Kapoor: But for tax incidence purpose, if we are coming up with dividend payout and then coming up with rights issue, how do these two things gel up, sir. So, if you declare a dividend on the tax recipient front, we as investors we'll be paying tax on the same. And then you come up with a right issue, we participate again with the amount. So why incurring it in, why is it not a tax neutral exercise being done. If you have proposed a rights issue, how do dividend payout work, sir, that is my point was?

V R K Gupta: We have taken your suggestion, accordingly, appropriate time we will come up.

Saket Kapoor: Thank you for this opportunity, sir. And all the best to the team. And we hope for the continuity of these calls, sir. These are very helpful for investors.

V R K Gupta: Thank you.

Moderator: Thank you. The next question is from the line of Varatharajan Sivasankaran, Antique Stock Broking. Please go ahead.

Varatharajan S.: Yes, just a question on the LPG surplus we are carrying in the suspension account. Is there any discussion around that. We get a possibility that this can set up again the under recovery on petrol and diesel which we had FY'23?

V R K Gupta: No such discussion. No such discussion. The practice is continuing what has been done in earlier years.

Varatharajan S.: Okay, sir. Thank you.

Moderator: The next question is from the line of Mayank Maheshwari from Morgan Stanley. Please go ahead.

Mayank Maheshwari: Just a follow-up question here. I just wanted to check when you were talking about the carbon investments, when you are putting up these new investments of almost INR150,000 crores or so, what are you taking into account in terms of your return calculations on your carbon tax in your numbers? Is there a rough range that you can kind of help us with?

V R K Gupta: We are not taken any carbon tax numbers in the returns calculation. Only what we have worked out is that what is the current carbon emissions, what are our obligations in terms of reducing carbon emissions and in terms of what is the capital outlay required. The capital outlay requirement is much beyond this INR1.5 lakh crores. This INR1.5 lakh crores only for the announcement projects. For carbon emissions of around 15 or 16 MMT carbon emissions, we need additional capital outlay of maybe INR95,000 crores to INR1 lakh crores. So, we are not factoring any carbon tax in our existing projects.

Mayank Maheshwari: Got it, clear. Thank you.

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

Amit Rustagi: Sir, as per some market commentaries, GAIL was considering to merge some of their city gas assets with IGL, where BPCL is also one of the shareholders and the joint venture partner. So, do you think that this kind of moves are possible? And are you also considering to merge some of your city gas distribution companies with the larger players to monetize them?

V R K Gupta: We are not foreseeing any such need at this point of time.

Amit Rustagi: There is no proposal similar to this kind of merge with IGL?

V R K Gupta: No.

Amit Rustagi: Okay, sir. Got it. And sir, second question relates to the current spreads with respect to the crude. So, which are the most opportunistic crudes we see as of now because in the last one year, there is a significant change in the discounts of the crude, which are available to the Indian refineries. So which crude as for you is the most profitable as of now, right now?

V R K Gupta: You see today, we are almost processing around 108 grades of crude. It all depends on what pricing they offer when we go to the market and purchase. So, every crude is important, every crude we value. Only thing at the particular point of month in case, which crude gives more commercial offer, currently, we take the decision in the process. Otherwise, our refineries can take almost 108 grades of crude. So, every month we go to the market for any spot requirements. We assess which grades or which suppliers can give more commercial offers, then accordingly we decide.

Amit Rustagi: Okay. But you will agree that the discounts have come down from the previous levels?

V R K Gupta: It depends market sometimes it gives more discounts, sometimes it gives lesser discounts. But directional, yes, what you are observing is right.

Amit Rustagi: Okay. Great, sir. Sir, thanks for this and wish you all the best and happy Diwali.

V R K Gupta: Thank you.

Moderator: Thank you. Ladies and gentlemen, as there are no further questions, on behalf of Antique Stock Broking, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.