Bharat Petroleum Corp Ltd

CMP Rs573, Under Review

Sector: Oil & Gas	
Sensex:	16,666
CMP (Rs):	573
52 Week h/l (Rs):	658 / 407
Market cap (Rscr) :	20,714
6m Avg vol ('000Nos):	762
No of o/s shares (mn):	362
FV (Rs):	10
Bloomberg code:	BPCL IB
Reuters code:	BPCL.BO
BSE code:	500547
NSE code:	BPCL

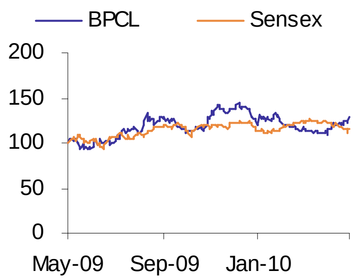
Prices as on 27 May, 2010

Shareholding pattern	
March '10	**(%)**
Promoters	54.9
Institutions	28.3
Non promoter corp hold	4.0
Public & others	12.7

Performance rel. to sensex

(%)	1m	3m	1yr
BPCL	19.4	0.1	6.8
HPCL	21.5	(0.4)	(14.1)
IOCL	26.4	5.3	(0.2)
CPCL	(7.4)	(1.9)	15.1

Share price trend



- Net sales for Q4 FY10 rises 41.6% yoy primarily driven by higher average realizations and increase in government compensation
- Upstream companies shared under recovery burden worth Rs14.7bn in Q4 FY10 v/s Rs2.3bn in Q4 FY09
- Throughput was higher by 16.8% yoy to 5.7mn tons and market sales were higher by 2.3% to 7.3mn tons
- EGoM meeting on June 7, 2010 could act as a game changing event. Hence, we keep our rating and target price under review

Result table

(Rs m)	Q4 FY10	Q4 FY09	% yoy	Q3 FY10	% qoq
Net sales	**375,703**	**265,253**	41.6	**321,829**	16.7
Material costs	(143,111)	(94,109)	52.1	(148,422)	(3.6)
Purchases	(180,330)	(108,409)	66.3	(149,852)	20.3
Personnel costs	(7,655)	(1,487)	414.9	(3,982)	92.2
Other overheads	(33,142)	(19,514)	69.8	(13,129)	152.4
Operating profit	**11,466**	**41,734**	(72.5)	**6,444**	77.9
OPM (%)	***3.1***	***15.7***	***(1,268) bps***	***2.0***	***105 bps***
Depreciation	(3,208)	(2,631)	21.9	(3,816)	(15.9)
Interest	(2,059)	(6,149)	(66.5)	(2,513)	(18.1)
Other income	5,884	5,901	(0.3)	4,656	26.4
PBT	**12,083**	**38,854**	(68.9)	**4,771**	153.3
Tax	(5,052)	(2,574)	96.2	(980)	415.5
Effective tax rate (%)	***41.8***	***6.6***		***20.5***	
Reported PAT	**7,032**	**36,280**	(80.6)	**3,791**	85.5
PAT margin (%)	***1.9***	***13.7***	***(1,181) bps***	***1.2***	***69 bps***
Ann. EPS (Rs)	77.8	401.4	(80.6)	41.9	85.5

Source: Company, India Infoline Research

Higher compensation from govt results into higher sales

Bharat Petroleum Corporation Ltd (BPCL), reported 41.6% yoy rise in net sales to Rs376bn for Q4 FY10. Market sales at 7.25mn tons were higher by 2.3% yoy. Higher revenues were primarily on account of higher compensation from the government. During Q4 FY10, BPCL received Rs37.5bn as compared to Rs21bn in Q4 FY09. Government compensation was in lieu of under recoveries for LPG and SKO and was in the form of cash. Sans the impact of cash receipts / bond provisioning, net sales were higher by 38.3%, which reflects higher realization on account of higher product prices on a yoy basis.

Subsidy sharing pattern continues to remain ad-hoc

During FY10, total gross under recoveries for BPCL are estimated to be at Rs105bn as compared to Rs225bn in FY09. However with upstream bearing losses only on petrol and diesel, while government only partially compensating for losses on SKO and LPG, BPCL recorded net under recoveries FY10 v/s nil in FY09.

Refining segment performance impacted by fall in GRMs

During Q4 FY10, BPCL refineries had a combined throughput of 5.7mn tons, a growth of 16.8% yoy. However, GRMs for the quarter were at US$1.8/bbl v/s US$5.1/bbl for Mumbai refinery and US$4.9/bbl v/s US$4.1/bbl for Kochi refinery. Overall GRMs were lower in Q4 FY09. Fall in GRMs was on account of lower spreads across product categories on yoy basis and fall in inventory gains. While the GRMs are expected to at current levels in the near term, it would be critical for the company to increase its throughput so as to reduce the marketing sales to throughput ratio, to enable it to lower under recoveries.

Profit of Rs7bn in Q4 FY10 v/s Rs51bn FY10

During Q4 FY10, BPCL reported a profit of Rs7bn v/s Rs36.3bn in Q4 FY09. This was mainly driven by higher gross under recoveries/lower net over recoveries for the quarter on yoy basis. Furthermore, Rs10.8bn write-off on investments for diminution in value impacted profitability, which was partially offset by Rs5.6bn foreign exchange income.

EGoM meeting on June 7, 2010: could trigger a re-rating

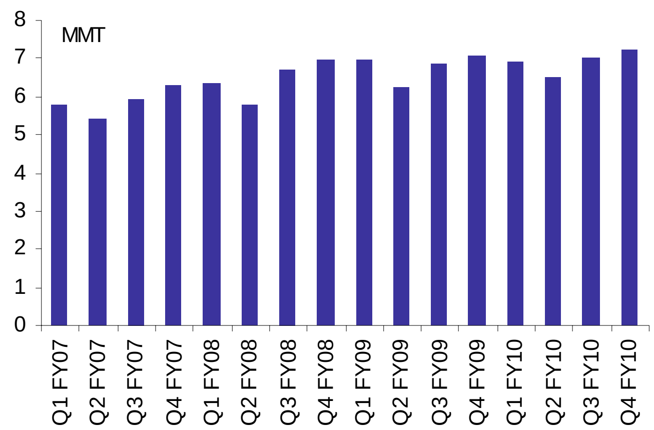
Uncertainties have been the only certainty for oil marketing companies over the past few years. Subsidy sharing pattern has been changing every quarter. With no clear cut formula, earning estimates have always been under clouds. However, with government's strong intent to improve the environment for OMCs, EGoM meeting on June 7, 2010 could be a game-changing event for OMCs. However, we would still be on sidelines and take an investment view following the EGoM's decision.

Cost analysis

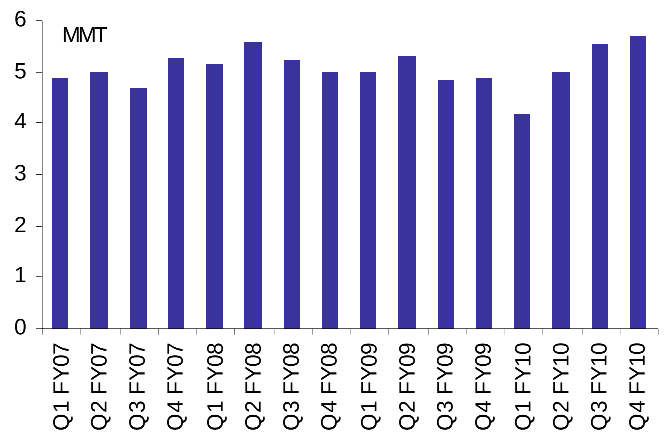
As a % of net sales	Q4 FY10	Q4 FY09	bps yoy	Q3 FY10	bps qoq
Material costs	38.1	35.5	261	46.1	(803)
Purchases	48.0	40.9	713	46.6	144
Personnel Costs	2.0	0.6	148	1.2	80
Other overheads	8.8	7.4	146	4.1	474
Total costs	**96.9**	**84.3**	**1,268**	**98.0**	**(105)**

Source: Company, India Infoline Research

Trend in market sales



Trend in throughput



Source: Company, India Infoline Research

Recommendation parameters for fundamental reports:

Buy – Absolute return of over +10%

Market Performer – Absolute return between -10% to +10%

Sell – Absolute return below -10%

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