RESULTS REVIEW

Share Data

Market Cap	Rs. 136.12 bn
Price	Rs. 376.50
BSE Sensex	18,419.04
Reuters	BPCL.BO
Bloomberg	BPCL IN
Avg. Volume (52 Week)	0.11 mn
52-Week High/Low	Rs. 448.10/287.05
Shares Outstanding	361.54 mn

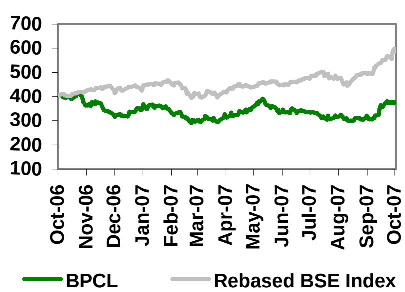
Valuation Ratios (Consolidated)

Year to 31 March	2008E	2009E
EPS (Rs.)	56.3	56.8
+/- (%)	(10.9%)	0.8%
PER (x)	6.7x	6.6x
EV/ Sales (x)	0.2x	0.2x
EV/ EBITDA (x)	5.5x	5.4x

Shareholding Pattern (%)

Promoters	64
FIIs	12
Institutions	19
Public & Others	5

Relative Performance



Bharat Petroleum Corporation Limited — Hold

Forex gain comes to the rescue

For the first quarter ended June 30, Bharat Petroleum Corporation (BPCL) reported 5% yoy increase in net sales to Rs. 240.9 bn. The increase was a result of rise in sales volume, which was partially offset by higher under recoveries on account of growing crude prices. EBITDA rose to Rs. 3,438 mn as compared to a loss of Rs. 904 mn in 1QFY07. In addition, margins improved by 180 bps to 1.4% driven by higher gross refining margin (GRM) in both the refineries. Net profit turned positive to Rs. 2,385 mn as compared to a loss of Rs. 3,782 mn in 1QFY07. The rise in net profit was driven by rupee appreciation resulting in huge forex gains of Rs. 2,314.4 mn during the quarter.

We expect the sales and net profit to decline at a CAGR of 0.5% and 5.2%, respectively for FY07-FY09E. In the scenario of rising crude prices not backed by corresponding increase in retail prices, net margins will be kept under pressure. However, rising GRMs and rupee appreciation are expected to partially negate the same. At the current price, the stock trades at a forward P/E of 6.7x for FY08E and 6.6x for FY09E. Based on our valuation and results analysis, we believe that the stock is fairly priced at the current levels and thus maintain **Hold**.

Result Highlights

In 1QFY08, net sales increased by 5% yoy to Rs. 240.9 bn driven by growth in sales volume. BPCL's sales volume grew by 8.5% yoy to 6.8 MMT (including 0.4 MMT of exports) backed by higher sales of LNG, Lubes, HSD

Key Figures (Consolidated)

Quarterly Data	1Q'07	4Q'07	1Q'08	YoY%	QoQ%
(Figures in Rs mn, except per share data)					
Net Sales	229,448	244,369	240,875	5.0%	(1.4%)
EBITDA	(904)	13,934	3,438	480.3%	(75.3%)
Net Profit	(3,782)	7,457	2,385	163.1%	(68.0%)
Margins(%)					
EBITDA	*(0.4%)*	*5.7%*	*1.4%*		
NPM	*(1.6%)*	*3.1%*	*1.0%*		
Per Share Data (Rs.)					
EPS	(10.5)	20.6	6.6	163.1%	(68.0%)

Higher sales volume fuelled up revenue growth

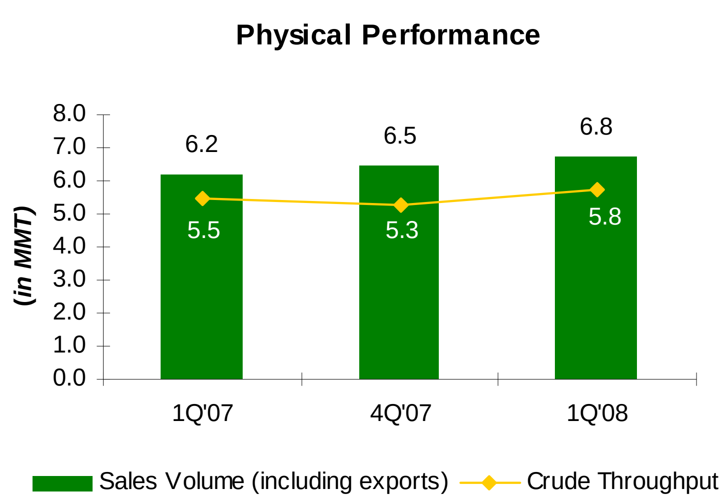
and Bitumen, however, lower sales of Naphtha, Furnace oil and LHS restricted the overall increase. Crude throughput improved by 5.5% yoy to 5.8 MMT which supported the rise in sales volume. However, sales were partially offset by higher under recoveries on account of rise in crude prices. The increase in sales should be considered taking into account the fact that government did not issue oil bonds during the quarter, however, BPCL received discount from upstream oil companies of Rs. 9.6 bn.

Increase in GRMs led to the improvement in EBITDA margin

In absolute terms, EBITDA increased tremendously to Rs. 3,438 mn as compared to a loss of Rs. 904 mn in 1QFY07. In addition, margins improved by 180 bps to 1.4% due to higher GRM of USD 6.5 per barrel for Mumbai refinery (USD 5.4 per barrel in 1QFY07) and USD 8 per barrel for Kochi refinery (USD 6 per barrel in 1QFY07). Moreover, reduction in other expenditures also contributed to margin improvement, which was partially offset by rise in the purchase cost.

Huge forex gains contributed to the rise in net profits

In 1QFY08, net profit climbed to Rs. 2,385 mn due to huge forex gains of Rs. 2,314.4 mn on account of rupee appreciation. However, rise in interest expense and tax charges capped the overall increase.



Key Events

BPCL acquired 50% stake in EnCana Brasil Petroleo Limitida

The Company made the largest gas discovery in Assam

- BPCL, in collaboration with Videocon Industries, acquired 50% stake in EnCana Brasil Petroleo Limitida for USD 425 mn. The deal will help the Company in its exploration business.
- The Company signed an agreement for acquiring 20% participating interest in Australian block for USD 1.42 mn.
- BPCL along with Premier Oil, have made the largest onshore gas discovery in Assam. Initial estimates suggested in-place gas reserves of 8-18 TCF.

Key Risks

- Increase in crude prices/lower subsidy can negatively affect the Company's profitability.
- Growth in retail prices can provide an upside to our rating.
- Delay in the issue of oil bonds can adversely affect BPCL's earnings.

Key Developments

BPCL plans to sell its 49% stake in Bharat Shell Ltd

The Company is planning to raise Rs. 12 bn by way of an IPO

- BPCL plans to sell its 49% stake in Bharat Shell Ltd (a JV company) to Royal Dutch Shell for Rs. 1,458 mn.
- In order to expand its global reach, the Company is planning to make a bid of USD 350 mn to acquire 10% interest in Congo fields.
- BPCL is planning to form a JV with Matrix Marine Fuels LLC (a US based company) for expanding bunkering business. The proposal will require an investment of USD 29 mn.
- The Company plans to set up a 44 tmt LPG bottling plant at Fatuha near Patna with an investment of around Rs. 310 mn.
- BPCL JV is planning to raise Rs. 12 bn by way of an IPO for the expansion of Bina refinery.
- The Company plans to enter into contract farming in Brazil for biodiesel with Petrobras (Brazilian Petroleum Company). In addition, it plans to spend Rs. 15 bn on the exploration and development front.

Outlook and Valuation

Rupee appreciation and higher GRMs expected to improve operating margins

With BPCL expanding and modernizing its refineries, sales volume are expected to grow in the long term. In addition, rupee appreciation and higher GRMs will help the Company to sustain its EBITDA margins. However, rise in crude prices along with uncertainty over subsidy sharing & issue of oil bonds will continue to put pressure on the profitability. Moreover, rise in interest cost will also keep the net profits under pressure. Considering the above factors, we estimate net profit to decline at a CAGR of 5.2% for FY07-FY09E.

At the current price of Rs. 376.5, the stock trades at a forward P/E of 6.7x for FY08E and 6.6x for FY09E. Based on our valuation and results analysis, we believe that the stock is fairly priced at the current levels and thus maintain **Hold**.

Key Figures (Consolidated)

Year to March	FY05	FY06	FY07	FY08E	FY09E	CAGR (%)
(Figures in Rs mn, except per share data)						(FY07-09E)
Net Sales	644,248	775,161	984,192	977,766	974,030	(0.5%)
EBITDA	37,759	17,041	45,196	43,811	45,031	(0.2%)
Net Profit	15,581	5,219	22,865	20,363	20,530	(5.2%)
Margins(%)						
EBITDA	*5.9%*	*2.2%*	*4.6%*	*4.5%*	*4.6%*	
NPM	*2.4%*	*0.7%*	*2.3%*	*2.1%*	*2.1%*	
Per Share Data (Rs.)						
EPS	51.9	14.4	63.2	56.3	56.8	(5.2%)
PER (x)	6.8x	29.5x	6.0x	6.7x	6.6x	

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