

Q2FY13 Result Update/Estimate change 12 Nov 2012

Government compensation for H1 leads to profitability in Q2

Government compensation of Rs300bn for the under-recoveries incurred during H1FY13 led to profitability of all OMCs including BPCL. The company bettered its Q2 operational performance with US\$6.4/bbl in GRMs and higher throughput of 5.94mmt. Bina refinery throughput was lower at 1.0mmt due to operational issues but GRMs remained healthy at US\$7.7/bbl. With the revision in petrol prices during Q2, the company has stopped incurring any losses on petrol. Although, BPCL reported PAT of Rs50.3bn in Q2, under-recoveries' absorption of Rs61.3bn during H1 led to a loss Rs38.0bn for H1FY13. We like BPCL due to its E&P success and hence maintain our 'Buy' rating on the stock.

- **Lower market sales yet rupee depreciation leads to higher revenues:** BPCL's revenues jumped by 34.5% YoY at Rs568.9bn backed by 10.4% increase in market sales at 7.8mmt and higher product prices due to rupee depreciation. Throughput also inched up 6.5% YoY and 0.5% QoQ at 5.9mmt.
- **Forex and inventory gains further support profitability:** BPCL's operational performance was better with average GRMs of US\$6.4/bbl in Q2 and US\$4.6/bbl in H1. The company had inventory gains of Rs4.4bn while favourable exchange rate led to Rs11.7bn in forex gains. Upstream companies offered Rs36.2bn in discounts to BPCL while government compensation for H1FY13 was at Rs72.4bn which led to BPCL posting PAT of Rs50.3bn. However, due to absorption of Rs61.3bn in under-recoveries during H1, the company incurred a loss of Rs38.0bn during H1FY13. The company holds a debt of Rs256.0bn of which over 80% is foreign currency debt. BPCL also holds oil bonds of Rs64.8bn.

Y/E Mar (Rsmn)	Q2FY13	Q2FY12	YoY (%)	Q1FY13	QoQ (%)	Q2FY13E	Var (%)
Net sales	568.9	423.0	34.5	545.5	4.3	587.3	(3.1)
Operating profit	53.9	(26.9)	-	(81.5)	-	11.3	375.8
OPM (%)	9.5	(6.4)	-	(14.9)	-	1.9	-
PBT	50.3	(32.3)	-	(88.4)	-	12.2	313.6
PAT (reported)	50.3	(32.3)	-	(88.4)	-	12.2	313.6
Operating metrics							
Cru. throughput (mmt)	5.9	5.6	6.5	5.9	0.5	5.8	2.4
Market sales (mmt)	7.8	7.0	10.4	8.5	(8.6)	8.3	(6.4)
Tot. Under-reco. (Rsmn)	90.3	48.7	85.4	116.3	(22.4)	111.0	(18.7)
Upstream Supp. (Rsmn)	36.2	16.4	120.3	36.6	(1.2)	37.2	(2.7)
Oil bonds/ cash (Rsmn)	72.4	-	-	-	-	73.8	(2.0)

Source: Company, Centrum Research Estimates

- **E&P story to be unfolded in 2013:** Bina refinery's operational performance was better with GRMs at US\$7.7/bbl and it is expected to perform better going ahead. BPCL did not incur any under-recoveries on petrol during Q2 due to the revision in petrol prices (Q1 under-recoveries on petrol – Rs6.0bn) and even now the company is not losing money on the sale of petrol. BPCL has invested over Rs15.0bn during H1 and is planning to invest over Rs35.0-40.0bn (including E&P) during FY13E. We like BPCL due to its exposure to E&P which has been successful so far. The E&P story is likely to unfold further in 2013 when the reserve estimates for Mozambique block will be available. Hence we like BPCL due to the value from its E&P and maintain 'Buy' with a revised price target of Rs448 (earlier Rs464).

Y/E Mar (Rsmn)	Rev	YoY (%)	EBITDA	EBITDA (%)	Adj. PAT	YoY (%)	RoE (%)	RoCE (%)	EPS	PE (x)	PB (x)	EV/EBITDA
FY11	1,516,395	24.0	35,770	2.4	15,777	2.6	11.4	7.9	21.4	15.8	1.7	7.3
FY12	2,119,730	39.8	52,873	2.5	27,317	73.1	9.1	9.0	18.1	18.7	1.6	6.8
FY13E	2,365,074	11.6	40,423	1.7	13,687	(49.9)	9.0	7.4	18.9	17.9	1.6	9.4
FY14E	2,178,744	(7.9)	47,426	2.2	16,919	23.6	10.8	7.7	23.4	14.5	1.5	8.2
FY15E	2,109,437	(3.2)	49,655	2.4	17,300	2.2	10.7	7.7	23.9	14.1	1.5	8.1

Source: Company, Centrum Research Estimates

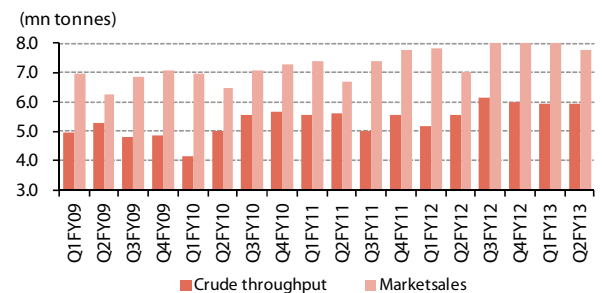
Key Data

Target Price	Rs448	Bloomberg Code	BPCL IN
CMP	Rs338*	Reuters Code	BPCL.BO
Upside	32.4%	Current Shares O/S (mn)	723.1
Stock to Sector	Outperform	Diluted Shares O/S(mn)	723.1
Sector to Market	Neutral	Mkt Cap (Rsbm/USDbn)	244.7/4.5
Price Performance (%)*		52 Wk H / L (Rs)	395/229
	1M	6M	1Yr
BPCL	(3.6)	(3.4)	21.1
NIFTY	0.3	15.5	10.2
			1 USD = Rs54.7
		Daily Vol. (3M NSE Avg.)	993,743
		Face Value (Rs)	10

Source: Bloomberg, Centrum Research

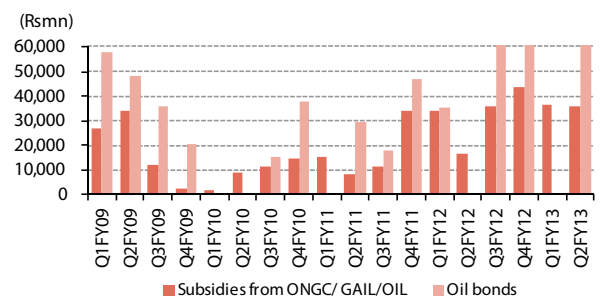
*as on 09 November 2012

Crude throughput and market sales



Source: Company, Centrum Research

Subsidies and government compensation



Source: Company, Centrum Research

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Financials

Exhibit 1: Income Statement

Y/E March (Rsmn)	FY11	FY12	FY13E	FY14E	FY15E
Revenues	1,516,395	2,119,730	2,365,074	2,178,744	2,109,437
Growth in revenues (%)	24.0	39.8	11.6	(7.9)	(3.2)
Raw Materials Consumed	627,304	855,630	956,659	935,962	905,561
% of net sales	41.4	40.4	40.4	43.0	42.9
Purchase of products	781,051	1,121,592	1,260,545	1,083,600	1,038,450
% of net sales	51.5	52.9	53.3	49.7	49.2
Employee Costs	27,636	22,611	25,324	27,350	29,264
% of net sales	1.8	1.1	1.1	1.3	1.4
Transportation Costs	28,548	33,204	34,200	33,858	33,181
% of net sales	1.9	1.6	1.4	1.6	1.6
Others	16,086	33,821	47,923	50,548	53,326
% of net sales	1.1	1.6	2.0	2.3	2.5
EBITDA	35,770	52,873	40,423	47,426	49,655
YoY growth (%)	46.9	47.8	(23.5)	17.3	4.7
EBITDA Margin (%)	2.4	2.5	1.7	2.2	2.4
Depreciation & Amortisation	16,554	18,849	18,885	20,704	22,294
EBIT	19,216	34,024	21,538	26,722	27,360
Interest expenses	11,170	17,996	15,426	13,991	12,556
Other Income	16,214	17,018	14,500	12,750	11,250
EBT	24,259	33,046	20,612	25,481	26,054
Provision for tax	8,482	5,729	6,926	8,562	8,754
Effective tax rate (%)	35.0	17.3	33.6	33.6	33.6
Net Profit	15,777	27,317	13,687	16,919	17,300
YoY growth (%)	2.6	73.1	(49.9)	23.6	2.2
Adjusted Net Profit Margin (%)	1.0	1.3	0.6	0.8	0.8

Source: Company, Centrum Research Estimates

Exhibit 2: Balance Sheet

Y/E March (Rsmn)	FY11	FY12	FY13E	FY14E	FY15E
Equity Share Capital	3,615	3,615	7,231	7,231	7,231
Reserves	136,961	145,523	147,163	152,279	156,089
Shareholders' fund	140,576	149,139	154,394	159,510	163,320
Debt	164,581	212,464	243,464	222,464	201,464
Deferred Tax Liability	10,075	14,006	14,006	14,006	14,006
Total Capital Employed	315,232	375,609	411,864	395,980	378,790
Total Fixed Assets	159,993	166,124	187,239	201,535	209,241
CWIP	9,724	11,191	11,191	11,191	11,191
Investments	49,457	49,703	49,703	39,703	29,703
Current investments	70,914	59,471	59,471	59,471	59,471
Inventories	153,751	159,481	178,608	162,687	156,601
Sundry Debtors	25,327	63,783	65,697	60,521	58,595
Cash & bank balances	3,790	9,789	17,415	13,312	6,239
Other current assets	48,929	94,066	94,316	94,566	94,816
Loans and advances	36,875	42,463	42,963	43,463	43,463
Total current assets	339,586	429,053	458,469	434,019	419,186
Current liabilities & provisions	243,527	280,461	294,738	290,468	290,530
Net current assets	96,058	148,591	163,731	143,551	128,656
Total Assets	315,232	375,609	411,864	395,980	378,790

Source: Company, Centrum Research Estimates

Exhibit 3: Cash flow

Y/E March (Rsmn)	FY11	FY12	FY13E	FY14E	FY15E
Cash flow from operating					
PBT	23,949	18,842	20,612	25,481	26,054
Interest	11,170	17,996	15,426	13,991	12,556
Depreciation	16,554	18,849	18,885	20,704	22,294
Amounts written off	-	-	-	-	-
Other Income	(16,214)	(17,018)	(14,500)	(12,750)	(11,250)
Op. profit bef. WC changes	35,460	38,669	40,423	47,426	49,655
Change in working capital	39,750	(57,977)	(7,514)	16,077	7,823
Tax (Including FBT)	(5,205)	(1,763)	(6,926)	(8,562)	(8,754)
Cash from operations	70,005	(21,071)	25,983	54,942	48,723
Change in fixed assets	(61,218)	(29,731)	(40,000)	(35,000)	(30,000)
Change in investments	85,556	(246)	-	10,000	10,000
Other income	16,214	17,018	14,500	12,750	11,250
Cash from investments	40,552	(12,960)	(25,500)	(12,250)	(8,750)
Free cash flow	94,343	(51,049)	(14,017)	29,942	28,723
Change in equity capital	-	-	-	-	-
Change in borrowings	(57,371)	47,884	31,000	(21,000)	(21,000)
Dividends paid	(5,772)	(4,549)	(8,431)	(11,804)	(13,490)
Interest paid	(11,170)	(17,996)	(15,426)	(13,991)	(12,556)
Others	(35,876)	14,690	0	0	(0)
Cash from financing	(110,190)	40,029	7,143	(46,795)	(47,046)
Net cash flow	367	5,998	7,626	(4,103)	(7,072)
Add: opening cash as per B/S	3,424	3,790	9,789	17,415	13,312
Closing cash balance	3,790	9,789	17,415	13,312	6,239

Source: Company, Centrum Research Estimates

Exhibit 4: Key Ratios

Y/E March	FY11	FY12	FY13E	FY14E	FY15E
Margin Ratios (%)					
EBITDA Margin	2.4	2.5	1.7	2.2	2.4
PBIT Margin	1.3	1.6	0.9	1.2	1.3
PBT Margin	1.6	1.6	0.9	1.2	1.2
PAT Margin	1.0	1.3	0.6	0.8	0.8
Growth Ratio (%)					
Revenue	24.0	39.8	11.6	(7.9)	(3.2)
EBITDA	46.9	47.8	(23.5)	17.3	4.7
Net Profit	2.6	73.1	(49.9)	23.6	2.2
Return Ratios (%)					
ROCE	7.9	9.0	7.4	7.7	7.7
ROIIC	10.7	10.8	8.8	9.0	8.7
ROE	11.4	9.1	9.0	10.8	10.7
Turnover Ratios					
Asset turnover ratio (x)	2.7	3.2	3.3	3.2	3.2
Avg. collection period (days)	6.1	11.0	10.1	10.1	10.1
Avg. payment period (days)	20.3	22.0	20.9	20.7	20.6
Per share Ratios (Rs)					
Basic EPS	21.4	18.1	18.9	23.4	23.9
Fully diluted EPS	21.4	18.1	18.9	23.4	23.9
Book value	194.4	206.3	213.5	220.6	225.9
Cash earnings per share	88.6	88.4	45.0	52.0	54.8
Dividend per share	14.0	11.0	10.0	14.0	16.0
Gearing Ratio (x)					
Debt-equity	0.2	0.1	0.1	0.1	0.1
Interest coverage ratio	1.7	1.9	1.4	1.9	2.2
Valuation (x)					
P/E (Fully Diluted)	15.8	18.7	17.9	14.5	14.1
P/BV	1.7	1.6	1.6	1.5	1.5
EV/EBITDA	7.3	6.8	9.4	8.2	8.1
EV/Sales	0.2	0.1	0.2	0.2	0.2
M-cap/Sales	0.1	0.1	0.1	0.1	0.1

Source: Company, Centrum Research Estimates

Appendix A

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