India Infoline Result Update
Hindustan Petroleum Corporation Ltd *(Q4 FY07)*
Rating: HOLD CMP: Rs283
May 30, 2007

Hindustan Petroleum Corporation Ltd (HPCL), reported robust numbers for Q4 FY07 and for the fiscal year ended March 2007 on back of higher bond income and strong volume growth. Higher share of upstream companies in sharing of under recoveries further provided a boost to bottomline growth. Improved GRMs provided additional strength to operational performance. Going ahead, the GRMs are likely to remain at current high levels on account of stringent fuel specifications and lower capacity additions compared to increase in demand for petroleum products. With expectations of the sharing pattern of under recoveries in FY07 to continue in FY08, HPCL stands to gain. However, uncertainty with respect to the above issue and also related to the pricing of auto fuels increase risk element in valuations. Hence we recommend only high risk appetite investors to hold on to the stock.

Financial highlights

	Q4 FY07	Q4 FY06	Growth (%)	FY07	FY06	Growth (%)
Gross Sales	237,542	227,390	4.5	969,182	769,203	26.0
Excise Duty	(19,047)	(19,610)	(2.9)	(78,769)	(60,142)	31.0
Net Sales	218,495	207,780	5.2	890,413	709,060	25.6
Expenditure	(208,244)	(188,136)	10.7	(866,316)	(701,043)	23.6
Operating Profit	10,251	19,644	(47.8)	24,096	8,017	200.5
Other Income	1,964	1,651	19.0	6,845	3,495	95.9
Interest	(1,527)	(536)	184.8	(4,230)	(1,759)	140.5
Depreciation	(1,864)	(1,745)	6.8	(7,040)	(6,902)	2.0
PBT	8,824	19,014	(53.6)	19,672	2,851	590.0
Tax	(3,329)	1,120	(397.3)	(3,960)	1,205	(428.5)
PAT	5,495	20,134	(72.7)	15,712	4,056	287.3
Equity	3,390	3,390		3,390	3,390	
OPM (%)	4.7	9.5		2.7	1.1	
EPS Rs	64.9	237.6		46.4	12.0	
CMP	283.0			283.0		
P/E	4.4			6.1		

Net sales up on higher bond income and robust volume growth
During Q4 FY07, net sales increased by 5.2% yoy to Rs218.5bn. The growth was lower on account of the fact that Q4 FY06 sales income consists of the entire FY06 bond income of Rs23.5bn. Market sales for the company during the quarter increased by 10.8% yoy to 5.6MMT. For FY07, net sales were up by 26% yoy to Rs890bn on back of 110% rise in income in form of bonds and 11.3% yoy growth in volumes.

Lower net under recoveries and strong GRMs aids operating profit growth
During FY07 operating profit for the company more than tripled to Rs24bn primarily on account of 67% decline in net under recoveries to Rs7.7bn, around 7% decline in purchase of products from outside refineries and 42.7% jump in GRMs to US$4.08/bbl.

Outlook for refining remains strong
In FY08, the demand for petroleum products is likely to remain strong with even more stringent emission norms. Further, CDU capacity addition is likely to be only 1mn barrels per day, much lesser than the expected incremental demand of around 1.4mn barrels per day. The demand supply mismatch will provide strength to the now falling GRMs. Complex refiners could gain more as the light-heavy differential continues to strengthen. Over the longer term, demand is likely to remain strong as global GDP growth is pegged at higher than historical levels. However, the supply will not grow as much with project costs increasing coupled with delays in implementation. Hence, strength in GRMs could sustain over a longer term.

Subsidy sharing pattern expected to continue

The subsidy sharing mechanism witnessed a marked change in FY07 when compared with the pattern in FY06. Upstream companies shared 41.4% in FY07 as compared to 38.6% in FY06, whereas Government shared 49% in FY07 against 28.1% in FY06 through issue of bonds. As a result, the net under recoveries for HPCL were down by 67% in FY07. This subsidy sharing pattern is expected to continue in FY08 as well.

Table: Key operational parameters

	Q4 FY07	Q4 FY06	Growth (%)	FY07	FY06	Growth (%)
Throughput (MMT)	4.21	4.12	2.2	16.66	13.82	20.5
Market Sales (MMT)	5.62	5.07	10.8	21.68	19.48	11.3
Throughput/Market Sales	75%	81%		77%	71%	
GRMs (US$/bbl)	4.23	3.42	23.7	4.08	2.86	42.7

Table: Breakup of sharing of subsidy burden

(Rs mn)	Q4 FY07	Q4 FY06	Growth (%)	FY07	FY06	Growth (%)
Under Recoveries	16,100	22,700	(29.1)	100,600	83,400	20.6
Upstream Contribution	11,400	11,800	(3.4)	41,600	32,200	29.2
Oil Bonds	10,000	23,450	(57.4)	49,300	23,450	110.2
Refineries	-	1,750	(100.0)	2,000	4,350	(54.0)
Net Under recovery	(5,300)	(14,300)	(62.9)	7,700	23,400	(67.1)

Table: Cost Analysis

As a % of Net Sales	Q4 FY07	Q4 FY06	Growth (%)	FY07	FY06	Growth (%)
Raw Material	37.1	36.9	0.2	40.0	33.9	6.0
Purchase of Products	52.5	48.2	4.3	52.6	59.5	(6.9)
Staff Cost	0.7	0.8	(0.1)	0.8	0.9	(0.1)
Other Expenditure	5.0	4.7	0.3	3.9	4.6	(0.7)
Total Expenditure	95.3	90.5	4.8	97.3	98.9	(1.6)