

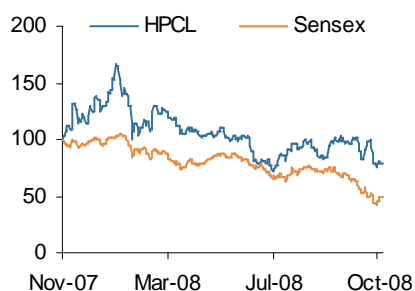
# Hindustan Petroleum Corp Ltd (Q2 FY09)

**November 03, 2008**
**Stock data**

Sensex:	9,788
CMP (Rs):	191
52 Week h/l (Rs):	406/164
Market cap (Rs cr)	6,463
6m Avg vol BSE&NSE ('000 nos):	1,269
No of o/s shares (mn):	339
FV (Rs):	10
Bloomberg code:	HPCL IN
Reuters code:	HPCL.BO
BSE code:	500104
NSE code:	HINDPETRO

**Shareholding pattern**

<b>September 2008</b>	<b>(%)</b>
Promoters	51.1
Foreign & Institutions	37.9
Non promoter corp hold	4.2
Public & others	6.8

**Share price trend**

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- Higher volumes and increased bond provision drive up topline growth
- Inventory losses lead to sharp decline in GRMs
- Increased under recoveries lead to Rs25.4bn operating loss
- Lower other income and higher interest burden further dents profitability
- Uncertainty over subsidy sharing pattern clouds earnings visibility

**Result table**

Period to	Q2 FY09	Q2 FY08	Growth	Q1 FY09	Growth
Rs mn	(3)	(3)	yoy (%)	(3)	qoq (%)
Gross Sales	370,888	256,290	44.7	365,115	1.6
Excise	(15,667)	(13,946)	12.3	(17,621)	(11.1)
Net Sales	355,221	242,344	46.6	347,493	2.2
Expenditure	(380,658)	(229,169)	66.1	(351,603)	8.3
Operating Profit	(25,438)	13,176	-	(4,110)	519.0
Other Income	978	2,808	(65.2)	1,679	(41.7)
Interest	(5,269)	(2,017)	161.2	(4,064)	29.7
Depreciation	(2,420)	(1,399)	73.0	(2,367)	2.3
PBT	(32,149)	12,568	-	(8,861)	262.8
Tax	(40)	(4,037)	(99.0)	(20)	100.0
PAT	(32,189)	8,530	-	(8,881)	262.4
Equity	3,390	3,390		3,390	
OPM (%)	(7.2)	5.4		(1.2)	
EPS (Rs Annualized)	(379.8)	100.7		(104.8)	

Source: Company, India Infoline Research

**Higher volumes and increase in bond provision drive up revenues**

Hindustan Petroleum Corporation Ltd (HPCL) reported 46.6% yoy growth in revenues driven by 1) 7.1% yoy increase in volumes mainly on account of higher diesel and petrol sales, 2) increased realizations due to higher average product prices (petrol, diesel, and LPG prices were raised in June 2008) and 3) increased bond provisions. Ex-bond provisions net sales rose by 43.1% yoy as during Q2 FY08 bonds were received for entire H1 FY08.

**Increased under recoveries lead to operational loss of Rs25.4bn**

Gross under recoveries for the quarter more than tripled to Rs90.6bn, which were offset to some extent by increase in bond provision and higher contribution by upstream companies. However, higher inventory losses due to fall in prices of crude oil and products led to decline in GRMs for both the refineries. Cumulatively, decline in GRMs and higher under recoveries resulted into an operating loss of Rs25.4bn for Q2 FY09 as compared to an operating profit of Rs13bn in Q2 FY08.

**Cost analysis**

Period	Q2 FY09	Q2 FY08	Inc/(Dec)	Q1 FY09	Inc/(Dec)
As % of net sales	(3)	(3)	bps yoy	(3)	bps qoq
Raw Material	40.7	26.4	1,422	25.2	1,543
Purchase of Products	61.1	62.2	(113)	71.1	(1,006)
Staff Costs	1.0	0.9	12	1.1	(13)
Other Expenses	4.5	5.1	(61)	3.7	73
Total	107.2	94.6	1,260	101.2	598

Source: Company, India Infoline Research

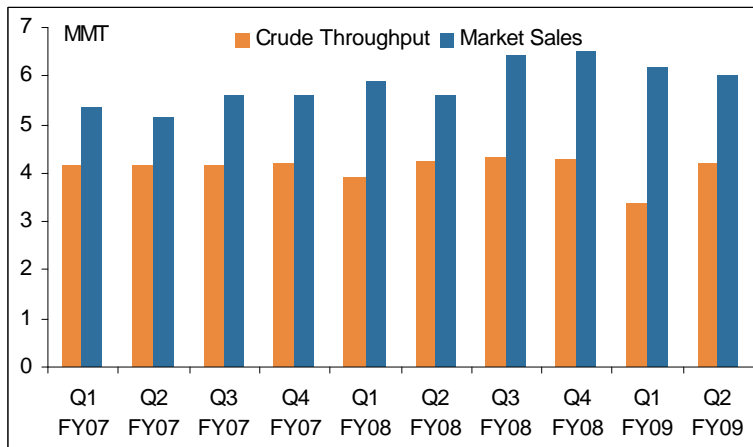
### Lower other income and higher interest outgo further impacts profitability

During Q2 FY09, other income was lower by 65% yoy to Rs978mn. Further, interest costs were higher by 161% on account of higher working capital requirements. These two factors along with poor operational performance translated into a loss of Rs32bn at the net level.

### Uncertainty over subsidy sharing mechanism keeps a cloud over earnings visibility

Subsidy sharing mechanism has been changed on a qoq basis, which clouds future earnings of the company. Although crude oil prices have seen a sharp correction, but these gains have been partly offset on account of depreciation in rupee. With the stock currently trading below book value, the valuations look attractive but uncertainty with respect to future earnings we maintain our view of avoiding investments in the stock.

### Trend in throughput and market sales



Source: Company, India Infoline Research

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