

RESULTS REVIEW
Bharat Petroleum Corporation Limited
Hold
Share Data

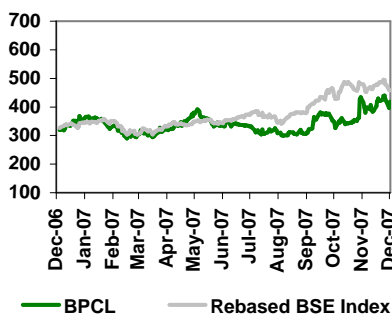
Market Cap	Rs. 151.2 bn
Price	Rs. 418.20
BSE Sensex	19,079.64
Reuters	BPCL.BO
Bloomberg	BPCL IN
Avg. Volume (52 Week)	0.12 mn
52-Week High/Low	Rs. 470/287.05
Shares Outstanding	361.54 mn

Valuation Ratios (Consolidated)

Year to 31 March	2008E	2009E
EPS (Rs.)	53.0	54.7
+/- (%)	(16.2%)	3.3%
PER (x)	7.9x	7.6x
EV/ Sales (x)	0.3x	0.3x
EV/ EBITDA (x)	6.1x	5.8x

Shareholding Pattern (%)

Promoters	64
FII's	12
Institutions	19
Public & Others	5

Relative Performance

Oil bonds and discounts largely offset the under-recovery

Bharat Petroleum Corporation (BPCL) during the second quarter survived the unavoidable losses resulting from higher under-recoveries primarily due to the issuance of oil bonds for Rs. 25.4 bn. In this quarter, the Company has reported 20.1% yoy decline in net profit to Rs. 10.5 bn even after factoring in the oil bonds and the discounts from upstream companies. BPCL's net sale of Rs. 254.3 bn was lower by 4.7% yoy despite an increase in the sales volume. The escalation in volumes was supported by the increase in crude throughputs by 8.9% yoy. Q2'08 witnessed a fall in average GRMs when compared with Q1'08 - in line with the global trend.

In the present scenario of rising crude prices, the OMC's continue to suffer as the retail fuel prices do not witness a corresponding hike. Our retail fuel price assumptions remain unchanged, however considering the rise in international crude prices we have revised our earnings estimates downward to Rs. 53 for FY08E (down 6%) and to Rs. 54.7 for FY09E (down 4%).

At the current price of Rs. 418.20, the stock trades at a forward P/E of 7.9x for FY08E and 7.6x for FY09E. On the backdrop of our valuation and results analysis, we believe that the stock is fairly priced at the current levels and hence maintain Hold.

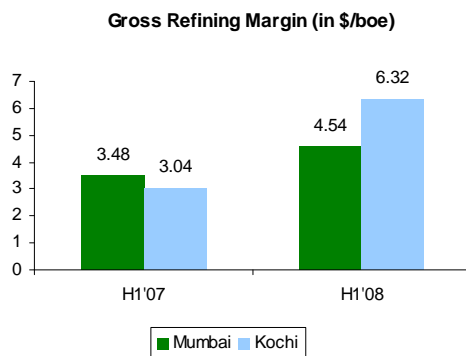
Result Highlights

BPCL reported 4.7% yoy decline in net sales of Rs. 254.3 bn in Q2'08 despite growth in sales volume. Sales volume grew by 4.7% yoy to 6.4 MMT (including 0.6 MMT of exports) especially in the domestic market which was

Key Figures (Consolidated)

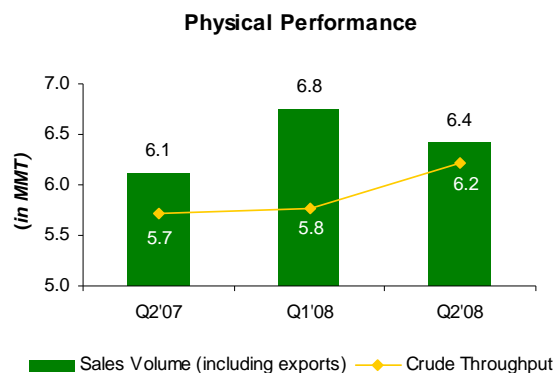
Quarterly Data	Q2'07	Q1'08	Q2'08	YoY%	QoQ%	H1'07	H1'08	YoY%
(Figures in Rs mn, except per share data)								
Net Sales	266,842	240,875	254,246	(4.7%)	5.6%	496,290	495,121	(0.2%)
EBITDA	19,909	3,438	18,539	(6.9%)	439.2%	19,005	21,977	15.6%
Net Profit	13,091	2,385	10,462	(20.1%)	338.7%	9,309	12,847	38.0%
Margins(%)								
EBITDA	7.5%	1.4%	7.3%			3.8%	4.4%	
NPM	4.9%	1.0%	4.1%			1.9%	2.6%	
Per Share Data (Rs.)								
EPS	36.2	6.6	28.9	(20.1%)	338.5%	25.8	35.5	38.0%

6.6% higher at 5.82 MMT. The increase in volume was supported by increase in refinery throughput which had improved not only by 8.9% yoy but also 8% sequentially. The Company's under-recoveries have increased in this quarter due to a steep rise in crude prices. The higher under-recovery was partially offset by discounts from upstream companies of Rs. 10,200 mn.



Despite increasing throughputs and higher capacity utilisation displayed by the Mumbai and Kochi refinery, the GRM dropped sequentially on account of non-revision of retail prices and higher crude prices. The average GRM in H1'08 stood at USD 4.54 per barrel for the Mumbai refinery as compared to USD 6.5 per barrel in Q1'08. For the Kochi refinery, it stood at USD 6.32 per barrel in H1'08 as compared to USD 7.97 per barrel in Q1'08. The decline in average GRMs for the half-year indicates lower GRMs in the current quarter.

In absolute terms, EBITDA declined 6.9% yoy to Rs. 18,539 mn and net profit declined to Rs. 10,462 mn by 20.1% yoy in Q2'08. The net profit included the effect of forex income of Rs. 720.6 mn in this quarter.



Key Events

- BPCL has approved a proposal to buy 5,350,110 mn shares in Oil India Limited amounting to 2.5% stake at a price equivalent to the issue price proposed to be offered to the public by OIL.
- The Company declared an interim dividend of Rs. 6 per share on its 361,542,124 fully paid up shares for the financial year 2007-08.
- The Company has conducted a due diligence on Kenya Petroleum Refinery Limited (KPRL) to acquire a majority stake in the latter.

Key Risks

- If the Gov decides to raise the fuel retail prices, it will reduce the under-recoveries of OMCs and hence would have a positive impact on our revenue estimates.
- However, if the crude prices increase further the Company's margins would come under pressure and hence will hurt our estimates.

Outlook

The rising crude prices without a corresponding increase in retail prices have deepened the misery of the OMC's. The Government has indicated its intention to review the retail fuel price; however, there is still a lot of uncertainty regarding the final outcome. The GOI continues to support the OMC's by issuing Oil bonds on an adhoc basis against the under-recoveries arising out of the rising crude prices.

Moreover, the possibility of rise in crude prices will continue to be a downside risk. Our retail fuel price assumptions remain unchanged, however considering the rise in international crude prices we have revised our earnings estimates downward to Rs. 53 for FY08E (down 6%) and to Rs. 54.7 for FY09E (down 4%).

At the current price of Rs. 418.20, the stock trades at a forward P/E of 7.9x for FY08E and 7.6x for FY09E. On the backdrop of our valuation and results analysis, we believe that the stock is fairly priced at the current levels and hence 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	987,522	976,890	(0.4%)
EBITDA	37,759	17,041	45,196	42,078	43,952	(1.4%)
Net Profit	15,581	5,219	22,865	19,152	19,792	(7.0%)
Margins(%)						
EBITDA	5.9%	2.2%	4.6%	4.3%	4.5%	
NPM	2.4%	0.7%	2.3%	1.9%	2.0%	
Per Share Data (Rs.)						
EPS	51.9	14.4	63.2	53.0	54.7	(7.0%)
PER (x)	6.8x	29.5x	6.6x	7.9x	7.6x	

Crude continues to rise; however, retail prices remain unchanged

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