RESULTS REVIEW

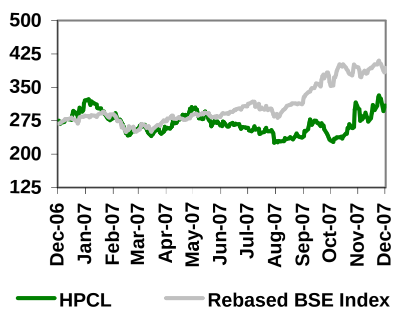
Share Data	
Market Cap	Rs. 105.01 bn
Price	Rs. 309.45
BSE Sensex	19,091.96
Reuters	HPCL.BO
Bloomberg	HPCL IN
Avg. Volume (52 Week)	0.25 mn
52-Week High/Low	Rs. 346.4/222.7
Shares Outstanding	339.33 mn

Valuation Ratios (Consolidated)

Year to 31 March	2008E	2009E
EPS (Rs.)	43.5	45.3
+/- (%)	(12.1%)	4.2%
PER (x)	7.1x	6.8x
EV/ Sales (x)	0.2x	0.2x
EV/ EBITDA (x)	8.2x	7.9x

Shareholding Pattern (%)	
Promoters	51
FIIs	14
Institutions	25
Public & Others	10

Relative Performance



Hindustan Petroleum Corporation Limited Hold

The wait is over - Oil bonds save bottomline

Hindustan Petroleum Corporation Limited (HPCL) reported a net profit of Rs. 8.5 bn on the back of Oil bonds of Rs. 23.6 bn. The Company registered net sales of Rs. 242.3 bn (down by 0.5% yoy) in Q2'08 despite an escalation in sales volume by 9.4% yoy to 5.61 MMT. The volume growth was partially supported by an increase in throughput which grew by 4.1% yoy to 6.09 MMT and partially by an increase in the purchase of products for resale. The increase in throughputs and purchase of products for resale resulted in greater inventory levels. Inventories went up by Rs. 25.9 bn in Q2'07 as against Rs. 6 bn in Q2'07. Average refining margins for the Company had declined when compared with Q1'08, in-line with the global trends.

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. 43.5 for FY08E (down 9.3%) and to Rs. 45.3 for FY09E (down 9.2%).

At the current price of Rs. 309.45, the stock trades at a forward P/E of 7.1x for FY08E and 6.8x for FY09E. Based on our valuation and results analysis, we believe that the stock is fairly priced at the current levels and hence maintain Hold.

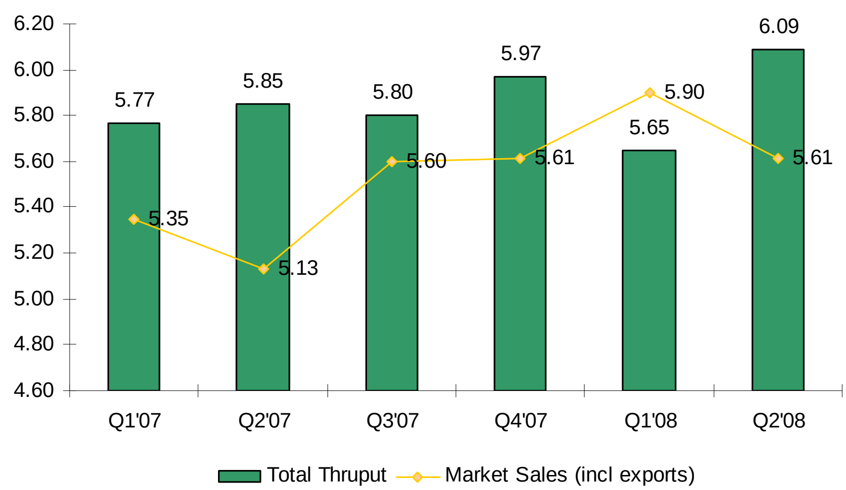
Result Highlights

During the second quarter, the net sales almost remained constant

Key Figures (Standalone)

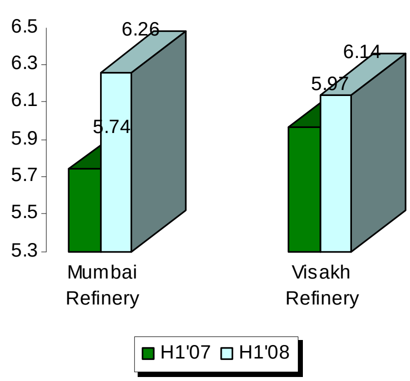
Quarterly Data	Q2'07	Q1'08	Q2'08	YoY%	QoQ%	H1'07	H1'08	YoY%
(Figures in Rs mn, except per share data)								
Net Sales	243,675	218,817	242,344	(0.5%)	10.8%	450,416	461,161	2.4%
EBITDA	17,004	(1,285)	13,176	(22.5%)	NM	11,830	11,891	0.5%
Net Profit	12,220	(869)	8,530	(30.2%)	NM	6,143	7,661	24.7%
Margins(%)								
EBITDA	7.0%	(0.6%)	5.4%			2.6%	2.6%	
NPM	5.0%	(0.4%)	3.5%			1.4%	1.7%	
Per Share Data (Rs.)								
EPS	36.1	(2.6)	25.2	(30.2%)	NM	18.1	22.6	24.7%

(0.5% yoy drop) at Rs. 242.3 bn as compared to the sales in Q2'07 despite an increase in the sales volumes. The volumes grew by 9.4% yoy to 5.61 MMT partially supported by 4.1% increase in throughputs of 6.09 MMT. Increase in throughputs was a result of higher capacity utilisation at both the refineries. The increase in sales volume was also partially met by an increase in cost associated with purchase of products for resale. The contribution of purchases to the total sales increased by 12.5% to 62.2% in Q2'07. On a sequential comparison, HPCL has shown 7.8% increase in total throughputs whereas the sales volumes declined by 4.9%. Higher throughputs and lower sales volumes resulted in higher inventories of Rs. 25.9 bn in this quarter as against a decline of Rs. 3.8 bn in Q1'08.



Refining margins had declined sequentially, in-line with the global trends. This was evident from the drop in the average GRM in H1'08 which was USD 6.26 per barrel for the Mumbai refinery in contrast to USD 9.04 per barrel in Q1'08. Similarly, for the Visakh refinery, it stood at USD 6.14 per barrel in H1'08 as against USD 7.8 per barrel in Q1'08.

Gross Refining Margin ($/barrel)



Though earnings were hit by higher crude prices and stable retail prices, the Company reported EBITDA of Rs. 13.2 bn and net profit of Rs. 8.5 bn in Q2'08 due to the receipt of oil bonds from the GoI. On a yearly comparison, EBITDA was down by 22.5% and net profit dropped by 30.2% due to higher purchase cost and other operating costs. However, the improvement in consumption of raw material as a percentage of sales by 391 bps partially offset the drop in EBITDA margin. Additionally, Other income increased by two and a half times to Rs. 6.2 bn in the first half of FY'08 because of higher forex gains, which added to the quantum of profits.

Key Events

- HPCL, with its joint ventures like Prize Petroleum Ltd is building a 180,000 bpd refinery in the northern state of Punjab.
- The Company intends to commission 100 MW of wind power generation capacity in Maharashtra at an investment of Rs. 5 bn. This would benefit the Company's profitability due to the tax waivers offered by the Government.
- HPCL has signed a contract with Jacobs Engineering Group Inc. to provide project management consultancy services for a lube oil base stock (LOBS) for quality upgrading at the Company's refining complex in Mumbai. Jacobs will perform front-end engineering and supervise lump sum turnkey contracting for the LOBS project.
- HPCL plans to spend about USD 4.5 bn of capex by 2012 on E&P, gas marketing and petrochemicals. Of this, USD 1 bn is planned to be expended on exploration & production over the next five years; USD 2.5 bn is to be invested in augmenting the throughput of the Vishakhapatnam refinery to 10 MMT from 7.5 MMT.

Key Risks

- The uncertainty about the GoI's stand on the revision of retail fuel prices has become a key risk factor which can affect our rating either way.
- Crude prices have shown higher than expected volatility in the recent past. Any further rise in the prices would pressurise the Company's margins.
- On the contrary, if dollar weakens further in the future it would provide an upside to our estimates.

Outlook

Decision of the GoI over the revision of retail fuel prices has become the key driver

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. 43.5 for FY08E (down 9.3%) and to Rs. 45.3 for FY09E (down 9.2%).

At the current price of Rs. 309.45, the stock trades at a forward P/E of 7.1x for FY08E and 6.8x for FY09E. Based on 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	630,334	751,831	939,695	928,562	918,511	(1.1%)
EBITDA	23,752	9,976	26,959	26,023	27,259	0.6%
Net Profit	14,150	4,521	16,771	14,739	15,352	(4.3%)
Margins(%)						
EBITDA	3.8%	1.3%	2.9%	2.8%	3.0%	
NPM	2.2%	0.6%	1.8%	1.6%	1.7%	
Per Share Data (Rs.)						
EPS	41.7	13.3	49.5	43.5	45.3	(4.3%)
PER (x)	7.3x	24.2x	6.3x	7.1x	6.8x	

Disclaimer

This report is not for public distribution and is only for private circulation and use. The Report should not be reproduced or redistributed to any other person or person(s) in any form. No action is solicited on the basis of the contents of this report.

This material is for the general information of the authorized recipient, and we are not soliciting any action based upon it. This report is not to be considered as an offer to sell or the solicitation of an offer to buy any stock or derivative in any jurisdiction where such an offer or solicitation would be illegal. It is for the general information of clients of Indiabulls Securities Limited. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. You are advised to independently evaluate the investments and strategies discussed herein and also seek the advice of your financial adviser.

Past performance is not a guide for future performance. The value of, and income from investments may vary because of changes in the macro and micro economic conditions. Past performance is not necessarily a guide to future performance.

This report is based upon information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied upon as such. Any opinions expressed here in reflect judgments at this date and are subject to change without notice. Indiabulls Securities Limited (ISL) and any/all of its group companies or directors or employees reserves its right to suspend the publication of this Report and are not under any obligation to tell you when opinions or information in this report change. In addition, ISL has no obligation to continue to publish reports on all the stocks currently under its coverage or to notify you in the event it terminates its coverage. Neither Indiabulls Securities Limited nor any of its affiliates, associates, directors or employees shall in any way be responsible for any loss or damage that may arise to any person from any error in the information contained in this report.

The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject stock and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report. No part of this material may be duplicated in any form and/or redistributed without Indiabulls Securities Limited prior written consent.

The information given herein should be treated as only factor, while making investment decision. The report does not provide individually tailor-made investment advice. Indiabulls Securities Limited recommends that investors independently evaluate particular investments and strategies, and encourages investors to seek the advice of a financial adviser. Indiabulls Securities Limited shall not be responsible for any transaction conducted based on the information given in this report, which is in violation of rules and regulations of National Stock Exchange or Bombay Stock Exchange.