

**Amit Whabi**

+91 22 67069900

amit.whabi@investsmartindia.com

**Shareholding (%)**

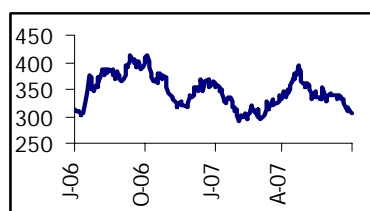
Promoters	64.3
FII's	12.1
MFs	2.7
Insurance Co.	14.9
Others	6.0

**Share price performance**

52-week high/low (Rs)	421/282		
	-1m	-3m	-12m
Abs (%)	-10.5	-8.6	-2.5
Rel* (%)	-13.3	-17.2	-43.7

\*to Nifty

**Stock chart**



**Refining margin, forex gain saves the day**

With an improvement in refining margin in Q1FY08, BPCL Ltd. has realised GRM of \$7.06/bbl as compared to \$5.66/bbl in Q1FY07 and \$5.90/bbl in Q4FY07. The company's marketing business continued to make losses, reporting a net under realisation of ~Rs 14 bn for Q1FY08. However, with some help by way of upstream discounts of Rs 9.6 bn and forex gain of Rs 2.3 bn in Q1FY08, the company has managed to restrain losses. As expected, BPCL has not received oil bonds this quarter, which has negatively impacted its profits.

We expect the subsidy sharing mechanism for the coming financial year to be announced soon, thereby bringing some level of clarity to the sector. The stock is currently trading at a PER of 5.75 and EV/EBITDA of 5.30x FY09E. Considering benefits from strong global refining margins, cost saving of \$0.50/bbl on crude supply (SBM project) and Kochi expansion of 2mtpa, we retain our 'Accumulate' rating on the stock.

**Key highlights of the quarter are:**

- ▲ **Higher market sales push net revenue up 5% YoY:** During Q1FY08, BPCL clocked 5% YoY growth in net sales at Rs 2,38,694 mn; this growth was supported by 9.5% YoY increase in market sales from 5.78 MMT in Q1FY07 to 6.33 MMT in Q1FY08. This was a result of declining share of private players like RIL. Sales growth for Q1FY08 was significantly high for HSD retail and direct at 13.14%, ATF at 5.8% and MS retail at 8.3%. The figures are not strictly comparable on QoQ basis as oil bonds were not issued in Q1FY08 as against bonds of Rs 9,009 mn in Q4FY07.
- ▲ **EBITDA up 179% YoY, down 84% QoQ:** BPCL reported an operating profit of Rs 2,060 mn in Q1FY08 as against an operating loss of Rs 2,609 mn in the same quarter last year. The turn around was possible due to 25% higher YoY average GRM of \$7.06/bbl. Crude throughput also has been higher by 5.5% YoY at 5.15 MMT as against 4.88 MMT in Q1FY07. Marketing losses during the quarter has also been lower by 30% YoY at Rs 14,094 mn due to lower product prices and 9% appreciation in rupee against USD. The upstream share has also been lower by 30% YoY.
- ▲ **Forex gains inflate significantly:** During Q1FY08, the company booked a total of Rs 2,314 mn as foreign exchange gain. This was included in other income, thus resulting in an increase of 298% YoY. Income from this

**Accumulate  
Rs305**

July 31, 2007

**Market cap**

Rs bn 110

US\$ mn 2,722

**Avg 3m daily volume**

511,810

**Avg 3m daily value**

USD mn 4

**Shares outstanding (mn)**

362

**Reuters/NSE**

BPCL.BO/BPCL

**Bloomberg**

BPCL.IN

**Sensex**

15,261

**Nifty**

4,248

## BPCL

source accounts for 80% of PBT. In the same quarter the previous year, a forex loss of Rs 1,516 mn was included in other expenditure.

- ▲ **Clocks net profit of Rs 1,927 mn:** The company has turned around remarkably by posting a net profit of Rs 1,927 mn against a net loss of Rs 4,265 mn YoY on the back of higher GRM, crude throughput and lower marketing losses. Increased forex gain has been a sweetener.

Table 1. Operation matrix

in MMTs	Q1FY08	Q1FY07	YoY (%)	Q4FY07	QoQ (%)
Crude throughput	5.25	4.88	5.5%	5.27	-2.3%
Market sales	6.33	5.78	9.5%	6.31	0.3%
Export sales	0.37	0.39	-5.1%	0.17	117.6%
GRMs (\$/bbl)					
Mumbai	6.50	5.41	20%	5.07	28%
Kochi	7.97	5.98	33%	7.30	9%
Average	7.06	5.66	25%	5.90	20%

Source: IISL research, company

Table 2. Operating profit break-up

Rs mn	Q1FY08	Q1FY07	YoY (%)	Q4FY07	QoQ (%)
Refining	9,164	7,542	21%	8,346	10%
Marketing	(14,094)	(20,235)	-30%	(16,119)	-13%
Upstream sharing	9,630	13,800	-30%	11,845	-19%
Oil bonds	-	-		9,009	
Inventory gains/(loss)	(2,640)	(4,162)	-37%	(343)	670%
Operating profit	2,060	(2,609)	-179%	12,738	-84%
Operating profit before bonds	2,060	(2,609)	-179%	3,729	-45%

Source: IISL research, company

## BPCL

Table 3. Quarterly result table

Rs mn	Q1FY08	Q1FY07	YoY (%)	Q4FY07	QoQ (%)
Net sales	238,694	227,107	5%	241,265	-1%
(Inc)/Dec in stock	2,640	4,162	-37%	343	670%
Purchase of products for resale	113,551	105,800	7%	113,433	0%
Consumption of raw materials	108,878	105,979	3%	97,597	12%
Staff cost	2,800	2,414	16%	2,885	-3%
Other expenditure	8,765	11,361	-23%	14,269	-39%
Total expenditure	236,634	229,716	3%	228,527	4%
Operating profit	2,060	(2,609)	179%	12,738	-84%
Other income	4,341	1,091	298%	2,547	70%
PBIDT	6,401	(1,518)	522%	15,285	-58%
Depreciation and Amortisation	2,276	1,815	25%	2,778	-18%
EBIT	4,125	(3,333)	224%	12,507	-67%
Interest	1,240	908	37%	1,648	-25%
PBT	2,885	(4,241)	168%	10,859	-73%
Provision for tax	958	24	3892%	4,159	-77%
PAT	1,927	(4,265)		6,700	-71%
No of shares	362	362		362	0%
EPS	5.3	(11.8)		18.5	-71%
<b>Key ratios %</b>					
Gross margin	5.7%	4.9%	16%	12.4%	-54%
Employee cost to sales	1.2%	1.1%	10%	1.2%	-2%
EBITDA margin	0.9%	-1.1%	-175%	5.3%	-84%
EBIT margin	1.7%	-1.5%	-218%	5.2%	-67%
Effective Tax Rate	33.2%	-0.6%	-5968%	38.3%	-13%
Net Profit Margin	0.8%	-1.9%	-143%	2.8%	-71%

Source: IISL research, company

IISL and other group companies, its directors, associates, employees may have various positions in any of the stocks, securities and financial instruments dealt in the report or may make sale or purchase or other deals in the securities from time to time or may deal in other securities of the companies/ organizations described in this report

### **Certification of Research Analyst**

I, Amit Whabi ,hereby certify that: the views expressed in the attached research report accurately reflect my personal views about BPCL and its securities, and my compensation is not directly or indirectly, related to the specific views or recommendations expressed in the research report.

### **Disclaimer Clause**

This report has been prepared by the Research Department of IL&FS Investsmart Securities Limited (IISL). E\*TRADE Financial Corporation holds an equity interest in IISL. E\*TRADE and the asterisk logo are registered trademarks of E\*TRADE Financial Corporation or its subsidiaries and are used with permission.

The information and opinions contained herein have been compiled or arrived at based upon information obtained in good faith from sources believed to be reliable. Such information has not been independently verified and no guarantee, representation or warranty, express or implied is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. This report has been produced independently of any company or companies mentioned herein, and forward looking statements, opinions and expectations contained herein are entirely those of IISL and given as part of its normal research activity and not as a Manager or Underwriter of any Offering or as an agent of the subject company (the "Company") or any other person. Accordingly if any such Company should at any time commence an Offering of securities, any decision to invest in any such Offer or invitation to subscribe for or acquire securities of any such Company must be based wholly on the information contained in the Final Prospectus issued or to be issued by any such Company in connection with any such Offer or invitation and not on the contents hereof. This document is for information purposes only and is provided on an "as is" basis. Descriptions of any company or companies or their securities mentioned herein are not intended to be complete and this document is not, and should not be construed as an offer, or solicitation of an offer, to buy or sell any securities or other financial instruments. We are not soliciting any action based on this research report.

IISL, its directors, analysts or employees do not take any responsibility, financial or otherwise, of the losses or the damages sustained due to the investments made or any action taken on basis of this report, including but not restricted to, fluctuation in the prices of the shares and bonds, changes in the currency rates, diminution in the NAVs, reduction in the dividend or income, etc.

This report is not directed to or intended for display, downloading, printing, reproducing or for distribution to or use by any person or entity who is a citizen or resident or located in any locality, state, country or other jurisdiction where such distribution, publication, reproduction, availability or use would be contrary to law or regulation or would subject IISL or its affiliates to any registration or licensing requirement within such jurisdiction. If this report is inadvertently sent or has reached any individual in such country, the same may be ignored and brought to the attention of the sender. This document may not be reproduced, distributed or published for any purpose without prior written approval of IISL.

Foreign currency denominated securities, if any, wherever mentioned are subject to exchange rate fluctuations which could have an adverse effect on their value or price, or the income derived from them. In addition, investors in securities such as ADRs or GDRs, the values of which are influenced by foreign currencies effectively assume currency risk. Certain transactions, including those involving futures, options and high yield securities give rise to substantial risk and are not suitable for all investors.

This research report is for the general information and does not take into account the particular investment objectives, financial situation or needs of any individual customer, and it does not constitute a personalized recommendation of any particular security or investment strategy. Before acting on any advice or recommendation in this research report, a customer should consider whether it is suitable given the customer's particular circumstances and, if necessary, seek professional advice. Certain transactions, including those involving futures, options, and high yield securities, give rise to substantial risk and are not suitable for all investors.

E\*TRADE Capital Markets, LLC, E\*TRADE Canada Securities Corporation, E\*TRADE Securities Limited and E\*TRADE Securities (Hong Kong) Limited (together with E\*TRADE Financial Corporation and collectively "E\*TRADE") do not represent or endorse the accuracy or reliability of any of the information or content of the research report and reliance upon it is at your own risk. E\*TRADE expressly disclaims any and all warranties, express or implied, including without limitation warranties of merchantability and fitness for a particular purpose with respect to the research report and any information in it. E\*TRADE shall not be liable for any direct, indirect, incidental, punitive or consequential damages of any kind with respect to the research report.

Distribution of this report into the United States is intended to be solely to "major U.S. institutional investors" pursuant to Rule 15a-6 under the U.S. Securities Exchange Act 1934, as amended. All U.S. persons that receive this report, by their acceptance thereof, represent and agree that they are a major U.S. institutional investor and understand the risks associated in executing transactions in securities. U.S. persons wishing to obtain further information or effect transactions in any securities mentioned in the attached report should contact E\*TRADE Capital Markets, LLC, 135 East 57th Street, 14th Floor, New York, NY 10022, Telephone Number- 646-840-8730, Fax - 646-840-8701.

Research, analysis, charting, reports, estimates, commentary, information, data, views, opinions, news and other content (collectively, the "Research") provided to you by E\*TRADE Canada Securities Corporation ("E\*TRADE Canada") is for informational purposes only. The Research provided herein by E\*TRADE Canada has been prepared by IISL, but such research has been prepared independently from E\*TRADE Canada and its employees. Accordingly, the Research may not have been, and no representation is made that such Research has been, prepared in accordance with Canadian disclosure requirements. Neither the Research nor the profiles of the third party research providers have been endorsed or approved by E\*TRADE Canada, and E\*TRADE Canada is not responsible for the content thereof or for any third party products or services. Some Research may contain financial information, but nothing in the Research constitutes a recommendation by E\*TRADE Canada to buy, sell or hold any security discussed therein, and the Research neither is, nor should it be construed as, an offer or a solicitation of an offer to buy or sell securities by E\*TRADE Canada. E\*TRADE Canada does not provide investment advice or recommendations of any kind, nor advice regarding the suitability or profitability of any investment. You are fully responsible for any investment decisions that you make and any profits or losses that may result. Any opinions, views, advice, services or other content provided by a third party are solely those of such third party, and E\*TRADE Canada neither endorses nor accepts any liability in respect thereof.

E\*TRADE Securities Limited is a company registered in Scotland No. SC103238 with its principal place of business at 42nd Floor, One Canada Square, London E14 5AA, United Kingdom. Registered Office: 24 Great King Street, Edinburgh EH3 6QN, United Kingdom. E\*TRADE Securities Limited is a member of the London Stock Exchange and is authorised and regulated by the Financial Services Authority.

E\*TRADE Securities (Hong Kong) Limited is licensed by the Hong Kong Securities & Futures Commission under Central Entity Number: ACT 764. Registered Office: Suite 2401-12 Two Pacific Place, 88 Queensway, Admiralty, Hong Kong.