

COMMENT

Hindustan Petroleum (HPCL.BO) Rs264.20

Equity Research

Potentially limited impact of the possible production cuts; CL-Buy

News

The *Times of India* has reported that the Pollution Control Board (PCB) has imposed a 30% cut in production (during winter season) at HPCL's Vizag refinery on account of its failure to adhere to emission norms. It further states that HPCL has clarified that it has not violated any norms.

Analysis

In the event of production being cut by 30% at the Vizag refinery during the winter season, HPCL's crude throughput would be reduced by about one mtpa or 6% lower than our estimates. In our view, the impact on the FY12E earnings would be about negative 3% if HPCL maintains the market sales volume at similar levels that it would achieve without the production cut. In case the market sales volume goes down by one mtpa as well, we estimate the negative impact on FY12E earnings would be about 5%.

Implications

Although Indian inflation is high at about 9.1%, GS economists expect it to fall to about 7% by Mar 2012. Falling inflation combined with lower than targeted disinvestment collections for FY12 (Rs11bn vs 400bn target) would make it likely that the Indian government would increase fuel prices going into CY12. In our view, the government would likely go ahead with fuel price increases in early CY2012 to lower its cash subsidy payout and thus the fiscal deficit (GS estimates at 5.8% for FY12E vs. govt. target of 4.6%).

We maintain our Buy rating (Conviction List) on HPCL. We believe it would benefit the most relative to its peers from any regulatory action leading to higher retail fuel prices. It has the highest sales/refining volume ratio among the OMCs (FY12E:1.6x). Our 12-m EV/EBITDA-based TP of Rs484 implies 84% upside. HPCL is trading at 1-yr forward price/book of 0.63x, near its 10-yr historical low price/book multiple of 0.54x. Key risks: global oil price spike, rise in inflation and weak INR-USD rate.

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Asia Pacific Buy List
Asia Pacific Conviction Buy List

Coverage View: Neutral

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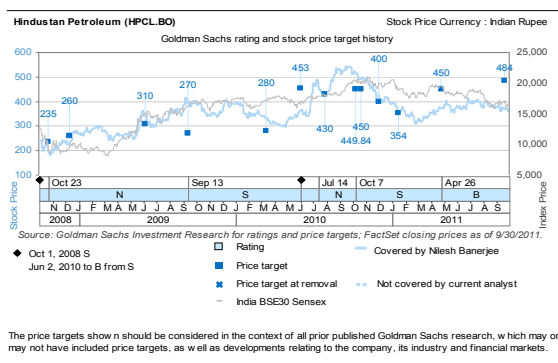
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Price target and rating history chart(s)



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