

July 30, 2010

### BUY

Price	Target Price
<b>Rs 642</b>	<b>Rs 675</b>
<b>Sensex</b>	<b>17,868</b>

### Price Performance

(%)	1M	3M	6M	12M
Absolute	(3)	31	19	32
Rel. to Sensex	(4)	28	9	13

Source: Bloomberg

### Stock Details

Sector	Oil & Gas
Reuters	BPCL.BO
Bloomberg	BPCL@IN
Equity Capital (Rs mn)	3615
Face Value(Rs)	10
No of shares o/s (mn)	362
52 Week H/L	718/460
Market Cap (Rs bn/USD mn)	232/4,986
Daily Avg Volume (No of sh)	2005143
Daily Avg Turnover (US\$m)	26.8

### Shareholding Pattern (%)

	M'10	D'09	S'09
Promoters	54.9	54.9	54.9
FII/NRI	7.4	8.1	9.0
Institutions	19.5	19.5	19.6
Private Corp	4.6	4.0	3.4
Public	13.6	13.5	13.2

Source: Capitaline

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- BPCL reported results which were below our estimates at EBIDTA and PAT Level, primarily due to non-issuance of oil bonds/Cash receivables during the quarter
- EBIDTA loss at Rs.14.1bn), (against our expectation of (Rs. -10.1bn), decline of 283% YoY, mainly due to forex loss of Rs.3.3bn and non-issuance of oil bonds/cash receivables
- Average gross refining margin was at \$3.57/bbl as compared to \$3.17/bbl (increase of 12.6% YoY) below our expectation of \$3.7/bbl.
- Valuations look attractive at 1.2x FY12E ABV, mainly due to recent change in reforms, Continue BUY rating with TP of Rs.675

### Highlights of the results

BPCL reported results which were below our estimates at EBIDTA and PAT Level, primarily due to non-issuance of oil bonds/cash pay out by the government during the quarter. Revenue for the quarter was at Rs. 342bn (against our expectation of Rs.298bn), growth of 34%, mainly on account of higher realizations and higher crude oil prices. EBITDA loss during the quarter was at Rs.14.1bn, decline of 283% on a y-o-y basis. During the quarter Inventory gain were at Rs.3.2bn as compared to inventory gain of Rs.6.9bn in Q4FY10. Interest cost declined by 19% to Rs.2.3bn, as debt levels have reduced significantly as compared to last year. During the quarter the company reported net loss of Rs.17.1bn, decline of 379% on a y-o-y basis, mainly due to non-issuance of oil bonds/cash receivables by the government.

The company received upstream discount of Rs. 15.4bn, in respect of crude Oil/LPG/SKO purchased from them has been accounted during the quarter. The company has not received budgetary support from the GOI for the under-recovery of cooking fuel and auto fuel during the quarter.

### Better clarity on subsidy sharing mechanism

After years of ad-hoc subsidy arrangements, a proper subsidy sharing mechanism is being worked out. The Oil secretary S Sudarshan has clarified that the 1/3rd of the under recovery would be absorbed by the upstream companies, the government would certainly absorb 50% or more, the balance 17% would be based on the companies performance over the quarter.

### Interest cost significantly down

During the quarter, interest costs reduced by 19% to Rs.2.3bn as debt on the books have reduced significantly. We believe part of this would be pertaining to the sale of the oil bonds/cash receivables that company has undertaken during the last year.

### Average GRM was at \$3.57 per bbl as against \$3.17 per bbl a year ago

Lower product demand, especially in light distillate, has seen product spreads reducing in Q1FY11. Average gross refining margin was at \$3.57/bbl as compared to \$3.17/bbl (increase of 12.6% YoY) below our expectation of \$3.7/bbl. However, we expect GRM's to improve in the coming quarters, in tandem with the improvement in the global economy, which helps to improve the petro product spreads.

### Valuation table

Rs Mn	Net Sales	EBIDTA	EBIDTA (%)	APAT	AEPS	EPS (% chg)	RoE (%)	P/E	EV/EBIDTA	P/BV
FY09	1203407	33379	2.8	6337	17.5	(64)	4.8	36.6	8.9	1.7
FY10	1239007	30601	2.5	16593	45.9	161.8	11.1	14.0	10.2	1.6
FY11E	1440249	42581	3.0	18854	52.1	13.6	11.3	12.3	7.1	1.4
FY12E	1484655	48015	3.2	19642	54.3	4.18	10.5	11.8	5.9	1.2

Source: Company, Emkay Research

**Valuation attractive, Maintain Buy**

Though there has been some clarity on sharing mechanism (upstream companies sharing entire 1/3rd of the total under recovery), more budgetary support from GOI is needed to keep BPCL in black. We expect GOI's budgetary support to increase only if it is able to garner larger funds from disinvestment or by full implementation of Kirit Parekh committee recommendation. At CMP of Rs.642, the stock trades at 1.4x and 1.2x FY11E and FY12E P/BV. We maintain our BUY rating on the stock with target price of Rs.675.

**Key financials – Quarterly**

Rs mn	Q1 FY10	Q2 FY10	Q3 FY10	Q4 FY10	Q1 FY11	YoY (%)	QoQ (%)
<b>Revenue</b>	<b>255,144</b>	<b>270,923</b>	<b>321,829</b>	<b>375,703</b>	<b>342,325</b>	34.2	(8.9)
<b>Expenditure</b>	<b>247,474</b>	<b>271,873</b>	<b>315,385</b>	<b>364,237</b>	<b>356,384</b>	44.0	(2.2)
<i>as % of sales</i>	<i>97.0</i>	<i>100.4</i>	<i>98.0</i>	<i>96.9</i>	<i>104.1</i>		
Consumption of RM	226,780	248,321	298,273	323,440	330,287	45.6	2.1
<i>as % of sales</i>	<i>88.9</i>	<i>91.7</i>	<i>92.7</i>	<i>86.1</i>	<i>96.5</i>		
Employee Cost	4,240	5,534	3,982	7,655	5,412	27.7	(29.3)
<i>as % of sales</i>	<i>1.7</i>	<i>2.0</i>	<i>1.2</i>	<i>2.0</i>	<i>1.6</i>		
Other expenditure	16,453	18,018	13,129	33,142	20,685	25.7	(37.6)
<i>as % of sales</i>	<i>6.4</i>	<i>6.7</i>	<i>4.1</i>	<i>8.8</i>	<i>6.0</i>		
<b>EBITDA</b>	<b>7,670</b>	<b>-950</b>	<b>6,444</b>	<b>11,466</b>	<b>-14,059</b>	(283.3)	(222.6)
Depreciation	2,311	3,088	3,816	3,208	4,007	73.4	24.9
<b>EBIT</b>	<b>5,359</b>	<b>-4,038</b>	<b>2,628</b>	<b>8,258</b>	<b>-18,066</b>	(437.1)	(318.8)
Other Income	6,812	4,211	4,656	5,884	3,209	(52.9)	(45.5)
Interest	2866	2673	2513	2059	2324	(18.9)	12.9
<b>PBT</b>	<b>9,306</b>	<b>(2,500)</b>	<b>4,771</b>	<b>12,083</b>	<b>(17,181)</b>	(284.6)	(242.2)
Total Tax	3,165	(912)	980	5,052		(100.0)	(100.0)
<b>Adjusted PAT</b>	<b>6,141</b>	<b>(1,588)</b>	<b>3,791</b>	<b>7,032</b>	<b>(17,181)</b>	(379.8)	(344.3)
(Profit)/loss from JV's/Ass/MI	-	-	-	-	-		
<b>APAT after MI</b>	<b>6,141</b>	<b>(1,588)</b>	<b>3,791</b>	<b>7,032</b>	<b>(17,181)</b>	(379.8)	(344.3)
<b>Extra ordinary items</b>	-	-	-	-	-		
<b>Reported PAT</b>	<b>6,141.2</b>	<b>(1,587.7)</b>	<b>3,790.9</b>	<b>7,031.8</b>	<b>(17,180.7)</b>	(379.8)	(344.3)
<b>Reported EPS</b>	<b>17.0</b>	<b>(4.4)</b>	<b>10.5</b>	<b>19.5</b>	<b>(47.5)</b>	(379.7)	(344.3)

  

Margins (%)						(bps)	(bps)
EBIDTA	3.0	(0.4)	2.0	3.1	(4.1)	(711.3)	(715.9)
EBIT	2.1	(1.5)	0.8	2.2	(5.3)	(737.8)	(747.6)
EBT	3.6	(0.9)	1.5	3.2	(5.0)	(866.6)	(823.5)
PAT	2.4	(0.6)	1.2	1.9	(5.0)	(742.6)	(689.0)
Effective Tax rate	34.0	36.5	20.5	41.8	-	(3,401.0)	(4,180.6)

Source: Company, Emkay Research

## Key Financials

## Income Statement

Y/E, Mar (Rs. mn)	FY09	FY10P	FY11E	FY12E
<b>Net Sales</b>	<b>1,203,407</b>	<b>1,239,007</b>	<b>1,440,249</b>	<b>1,484,655</b>
Growth (%)	17.2	3.0	16.2	3.1
<b>Expenditure</b>				
Materials Consumed	1,235,642	1,099,836	1,302,179	1,336,426
Employee Cost	19,813	22,522	23,476	24,497
Other Exp	76,737	86,048	72,012	75,717
<b>EBITDA</b>	<b>33,379</b>	<b>30,601</b>	<b>42,581</b>	<b>48,015</b>
Growth (%)	(6.5)	(8.3)	39.1	12.8
<b>EBITDA margin (%)</b>	<b>2.8</b>	<b>2.5</b>	<b>3.0</b>	<b>3.2</b>
Depreciation	12,617	14,446	14,753	15,700
<b>EBIT</b>	<b>35,120</b>	<b>38,968</b>	<b>39,588</b>	<b>39,875</b>
<b>EBIT margin (%)</b>	<b>2.6%</b>	<b>3.1%</b>	<b>3.0%</b>	<b>3.0%</b>
Other Income	14,358	22,813	11,760	7,560
Interest expenses	24,043	11,247	11,717	10,828
<b>PBT</b>	<b>11,261</b>	<b>27,991</b>	<b>28,141</b>	<b>29,316</b>
<b>Tax</b>	<b>4,104</b>	<b>10,522</b>	<b>9,286</b>	<b>9,674</b>
Effective tax rate (%)	36.4%	37.6%	33.0%	33.0%
<b>Adjusted PAT</b>	<b>7,157</b>	<b>17,469</b>	<b>18,854</b>	<b>19,642</b>
Growth (%)	(62.6)	144.1	7.9	4.2
<b>Net Margin (%)</b>	<b>0.5%</b>	<b>1.4%</b>	<b>1.4%</b>	<b>1.5%</b>
(Profit)/loss from JVs/Ass/MI	819.4	876.2	-	-
<b>Adj. PAT After JVs/Ass/MI</b>	<b>6,337</b>	<b>16,593</b>	<b>18,854</b>	<b>19,642</b>
E/O items	-	-	-	-
<b>Reported PAT</b>	<b>7,157</b>	<b>17,469</b>	<b>18,854</b>	<b>19,642</b>
<b>PAT after MI</b>	<b>6,337</b>	<b>16,593</b>	<b>18,854</b>	<b>19,642</b>
Growth (%)	(64.2)	161.8	13.6	4.2

## Cash Flow

Y/E, Mar (Rs. mn)	FY09	FY10P	FY11E	FY12E
<b>PBT (Ex-Other income)</b>	<b>11,346</b>	<b>27,991</b>	<b>28,141</b>	<b>29,316</b>
Depreciation	12,617	14,446	14,753	15,700
Interest Provided	23,878	11,247	11,717	10,828
Other Non-Cash items	-	-	-	-
Chg in working cap	24,457	(22,880)	(6,897)	(3,292)
Tax paid	5,677	10,522	9,286	9,674
<b>Operating Cash flow</b>	<b>70,175</b>	<b>20,282</b>	<b>38,427</b>	<b>42,878</b>
Capital expenditure	(44,851)	(24,200)	(14,200)	(9,200)
<b>Free Cash Flow</b>	<b>25,324</b>	<b>-3,918</b>	<b>24,227</b>	<b>33,678</b>
Other income	-	-	-	-
Investments	(202,357)	40,000	40,000	30,000
<b>Investing Cash flow</b>	<b>-126,185</b>	<b>15,800</b>	<b>25,800</b>	<b>20,800</b>
Equity Capital Raised	6133	0	0	0
Loans Taken / (Repaid)	(12,299)	(35,000)	(40,000)	(40,000)
Interest Paid	(23,439)	(11,247)	(11,717)	(10,828)
Dividend paid (incl tax)	(2,398)	(3,384)	(3,384)	(3,384)
Income from investments	-	-	-	-
Others	-	-	-	-
<b>Financing Cash flow</b>	<b>856</b>	<b>-49,631</b>	<b>-55,101</b>	<b>-54,212</b>
<b>Net chg in cash</b>	<b>-57,010</b>	<b>-13,549</b>	<b>9,125</b>	<b>9,466</b>
Opening cash position	(40,534)	(17,373)	3,824	12,950
<b>Closing cash position</b>	<b>13,486</b>	<b>3,824</b>	<b>12,950</b>	<b>22,416</b>

## Balance Sheet

Y/E, Mar (Rs. mn)	FY09	FY10P	FY11E	FY12E
Equity share capital	3,615	3,615	3,615	3,615
Reserves & surplus	129,497	145,598	163,961	183,111
<b>Net worth</b>	<b>133,112</b>	<b>149,214</b>	<b>167,576</b>	<b>186,727</b>
<b>Minority Interest</b>	<b>2,821</b>	<b>2,821</b>	<b>2,821</b>	<b>2,821</b>
Secured Loans	66,813	66,813	66,813	56,813
Unsecured Loans	175,578	140,578	100,578	70,578
<b>Loan Funds</b>	<b>242,392</b>	<b>207,392</b>	<b>167,392</b>	<b>127,392</b>
Net deferred tax liability	15,257	15,257	15,257	15,257
<b>Total Liabilities</b>	<b>399,775</b>	<b>380,876</b>	<b>359,239</b>	<b>338,389</b>
Gross Block	263,546	292,746	321,946	346,146
Less: Depreciation	120,483	135,429	150,682	166,882
<b>Net block</b>	<b>143,062</b>	<b>157,317</b>	<b>171,264</b>	<b>179,264</b>
Capital work in progress	<b>61,726</b>	<b>56,726</b>	<b>41,726</b>	<b>26,726</b>
<b>Investment</b>	<b>164,000</b>	<b>124,000</b>	<b>84,000</b>	<b>54,000</b>
<b>Current Assets</b>				
Inventories	78,706	83,717	97,314	100,315
Sundry debtors	15,059	16,520	19,203	19,795
Cash & bank balance	13,486	3,824	12,950	22,416
Loans & advances	29,782	30,551	33,540	34,574
Other current assets	31,026	32,605	37,901	39,070
<b>Current lia &amp; Prov</b>				
Current liabilities	122,751	111,045	126,247	128,255
Provisions	18,209	15,855	18,322	18,817
<b>Net current assets</b>	<b>27,132</b>	<b>40,317</b>	<b>56,340</b>	<b>69,098</b>
Misc. exp	-	-	-	-
<b>Total Assets</b>	<b>399,775</b>	<b>380,876</b>	<b>359,239</b>	<b>338,389</b>

## Key Ratios

Y/E, Mar	FY09	FY10P	FY11E	FY12E
<b>Profitability (%)</b>				
EBITDA Margin	2.8	2.5	3.0	3.2
Net Margin	0.5	1.4	1.4	1.5
ROCE	8.8	10.2	11.0	11.8
ROE	4.8	11.1	11.3	10.5
RoIC	12.9	8.2	12.6	13.7
<b>Per Share Data (Rs)</b>				
EPS	17.5	45.9	52.1	54.3
CEPS	52.4	85.9	93.0	97.8
BVPS	368.2	412.7	463.5	516.5
DPS	8.2	8.0	8.0	8.0
<b>Valuations (x)</b>				
PER	36.6	14.0	12.3	11.8
P/CEPS	12.3	7.5	6.9	6.6
P/BV	1.7	1.6	1.4	1.2
EV / Sales	0.2	0.3	0.2	0.2
EV / EBITDA	8.9	10.2	7.1	5.9
Dividend Yield (%)	1.9	1.2	1.2	1.2
<b>Gearing Ratio (x)</b>				
Net Debt/ Equity	1.7	1.4	0.9	0.6
Net Debt/EBIDTA	6.9	6.7	3.6	2.2
Working Cap Cycle (days)	(8.8)	(3.2)	(2.5)	(2.0)

**Recommendation History: BPCL – BPCL IN**

Date	Reports	Reco	CMP	Target
28.05.2010	<a href="#">BPCL Q4FY10 Result Update</a>	Buy	555	675
29.01.2010	<a href="#">BPCL Q3FY10 Result Update</a>	Buy	542	675
30.10.2009	<a href="#">BPCL Q2FY10 Result Update</a>	Buy	506	675

**Recent Research Reports**

Date	Reports	Reco	CMP	Target
26.07.2010	<a href="#">IOCL Q1FY11 Result Update</a>	Buy	372	392
26.07.2010	<a href="#">HPCL Q1FY11 Result Update</a>	Buy	436	515
28.06.2010	<a href="#">Oil and Gas Event Update</a>			
01.02.2010	<a href="#">IOCL Q3FY10 Result Update</a>	Buy	311	392

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