

RESULTS REVIEW

Hindustan Petroleum Corporation Limited

Buy

Share Data

Market Cap	Rs. 132.42 bn
Price	Rs. 391.05
BSE Sensex	16,719.50
Reuters	HPCL.BO
Bloomberg	HPCL IN
Avg. Volume (52 Week)	0.33 mn
52-Week High/Low	Rs. 425/164.1
Shares Outstanding	338.63 mn

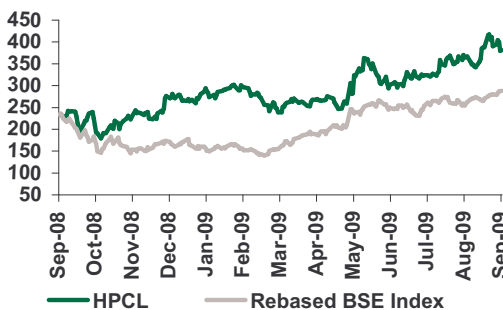
Valuation Ratios (Consolidated)

Year to 31 March	2010E	2011E
EPS (Rs.)	45.6	46.8
+/- (%)	105%	2%
PER (x)	8.6x	8.4x
EV/ Sales (x)	0.2x	0.2x
EV/ EBITDA (x)	7.0x	6.5x

Shareholding Pattern (%)

Promoters	51
FII's	9
Institutions	29
Public & Others	11

Relative Performance



Strong Q1'10 performance on the back of lower under-recoveries

For Q1'10, Hindustan Petroleum Corporation Limited (HPCL) reported net sales of Rs. 242 bn, a decline of 30.4% yoy from Rs. 347.5 bn, due to a fall in average fuel price realisations. However, lower under-recoveries has helped the company post an EBITDA of Rs. 13.3 bn. Further, a 33% decline in interest expenses and a forex gain of Rs. 1.6 bn helped the Company register a net profit of Rs. 6.5 bn, against a loss of Rs. 8.9 bn in Q1'09. Average GRMs were lower at USD 5.7/bbl, as compared to USD16.5/bbl in Q1'09.

Increasing crude prices, cause for concern: For Q1'10, the average benchmark WTI crude prices rose 38.7% qoq to USD 59.5/bbl, as against USD 42.9/bbl in Q1'09. Average under-recovery in the period stood at Rs. 2.3/litre in petrol, Rs. 0.3/litre in diesel, Rs. 11/litre in kerosene, and Rs. 85/cylinder in LPG. On the back of the recovery in the global economy, average crude prices are moving north and have already reached ~USD 70/bbl. At the current prices, average under-recovery stands at Rs. 2.5/litre in petrol, Rs. 1/litre in diesel, Rs. 150/cylinder in LPG and Rs. 16/litre in kerosene. We expect crude prices to go up even further to USD 75/bbl in the coming quarters leading to a further increase in under-recoveries. Moreover, uncertainty on the subsidy sharing pattern continues to cloud earnings estimates.

Some positives from the Government: OMCs received some positive news in July 2009 as the Government increased petrol prices by Rs. 4/litre and diesel prices by Rs. 2/litre, which will provide a marginal relief in reducing under-recoveries. Further, the Oil Secretary indicated a new subsidy-sharing pattern through which under-recoveries from the sale of LPG and kerosene will be met by the Government and the precise mode will be decided in due course in consultation with the Ministry of Finance.

Key Figures

Data	Q1'09	Q4'09	Q1'10	YoY%	QoQ%
(Figures in Rs. mn, except per share data)					
Net Sales	347,493	251,542	241,976	(30.4%)	(3.8%)
EBITDA	(4,110)	54,374	13,262	N.M.	(75.6%)
Adj. Net Profit	(8,881)	53,814	6,491	N.M.	(87.9%)
Margins(%)					
EBITDA	(1.2%)	21.6%	5.5%		
NPM	(2.6%)	21.4%	2.7%		
Per Share Data (Rs.)					
Normalised EPS	(26.2)	158.6	19.2	N.M.	(87.9%)

The proposed policy, if implemented, will hugely benefit HPCL, as it is one of the largest providers of LPG in India.

Valuation

We hold an optimistic outlook of the Company keeping in mind the recent recovery in the economy and the fuel price hike. Accordingly we have revised our estimates to consider these developments. Based on its current market price (CMP) of Rs. 391, the stock trades at a forward P/E of 8.6x and 8.4x for FY10E and FY11E, respectively, which is at a discount to other public refineries. Our peer group-based relative valuation based on FY 10 PE multiples implies a target fair value of Rs. 479, which provides a 23% upside potential from the CMP. Thus, we reiterate our Buy rating for the stock.

Key Risks

The following factors may pose a significant threat to our rating:

- Increase in international crude prices beyond expectations
- Uncertainty about the Government's policy on loss sharing

Recent Developments

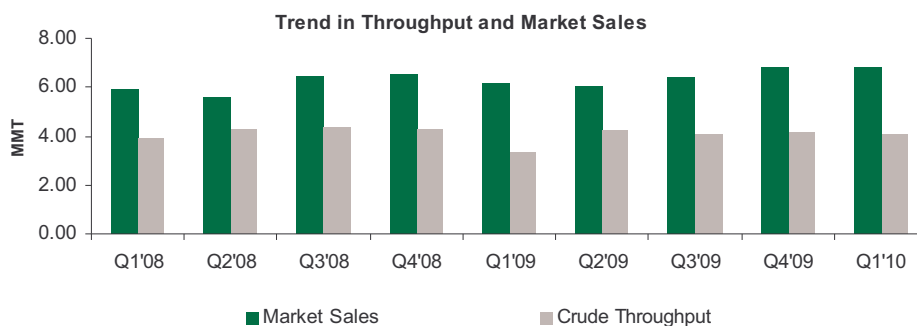
Visakha refinery set to produce Euro compliant products: HPCL has started producing Euro III quality petrol at Mumbai and is gearing up to produce from its Visakha refinery by April 2010. Euro IV quality petrol would be available at both the refineries by the end of FY11. The Company is expected to invest ~Rs. 69 bn for the project. India aims to move to BS III norms across the country and BS IV across 11 cities in 2010.

Scouting inorganic growth opportunities: HPCL is considering acquiring downstream assets of Royal Dutch Shell plc. in New Zealand. Shell New Zealand Ltd., a unit of Royal Dutch Shell plc, has appointed UBS AG (UBS) to sell the bulk of its downstream assets.

Result Highlights and Outlook

Top line constrained by low realisations

In spite of a 11% yoy increase in market sales, net sales in Q1'10 plunged by 30.4% yoy to Rs. 242 bn primarily due to a drop in average price realisations. The recent fuel price hike will help the Company improve realisations to a certain extent in the coming quarters but realisations are expected to be weak compared to FY09.



Significant improvement in EBITDA margins

HPCL reported an increase of 6.7pts yoy in the EBITDA margin at 5.5% in Q1'10 vs. negative 1.2% in Q1'09. The profit is mainly attributable to the fall in under-recoveries due to lower crude prices, as compared to FY09. Net under-recoveries during the quarter came down to Rs. 9.9 bn from Rs. 27.6 bn yoy. Adjusted net profit margin improved to 2.7% vs. negative 2.6% in Q1'09. In terms of refining margins, the GRMs were lower at USD 5.7/bbl, compared to USD16.5 /bbl in Q1'09.

Key Figures (Consolidated)

Year to March	FY07	FY08	FY09	FY10E	FY11E	CAGR (%)
(Figures in Rs mn, except per share data)						(FY09-11E)
Net Sales	939,695	1,103,591	1,290,546	1,116,192	1,262,636	(1.1%)
EBITDA	26,959	19,035	32,660	36,597	39,289	9.7%
Adj. Net Profit	16,771	13,641	7,572	15,487	15,873	44.8%
Margins(%)						
EBITDA	2.9%	1.7%	2.5%	3.3%	3.1%	
NPM	1.8%	1.2%	0.6%	1.4%	1.3%	
Per Share Data (Rs.)						
Normalised EPS	49.5	40.2	22.3	45.6	46.8	44.8%
PER (x)	5.0x	6.4x	12.1x	8.6x	8.4x	

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