

BPCL

STOCK INFO.	BLOOMBERG
BSE SENSEX: 14,625	BPCL IN
S&P CNX: 4,449	REUTERS CODE
	BPCL.BO

29 May 2009

Buy

Previous Recommendation: Buy

Rs465

Equity Shares (m)	361.5
52-Week Range (Rs)	516/206
1,6,12 Rel. Perf. (%)	-8/-30/40
M.Cap. (Rs b)	168.0
M.Cap. (US\$ b)	3.6

YEAR	NET SALES	ADJ. PAT	ADJ. EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS B)	(RS B)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
03/08A	1,112	15.1	41.9	-28.3	11.1	1.3	12.5	8.5	0.3	8.9
03/09A	1,366	6.3	17.5	-58.1	26.5	1.3	4.8	6.1	0.3	11.6
03/10E	891	16.9	46.8	166.9	9.9	1.1	12.1	8.0	0.3	6.7
03/11E	950	17.4	48.2	3.1	9.6	1.0	11.3	7.2	0.3	7.6

*Consolidated

- **4QFY09 numbers lower than estimated:** BPCL reported EBITDA of Rs41.5b (v/s our estimate of Rs52b), up 383% YoY and 173% QoQ. Lower than estimated EBITDA is primarily due to lower than factored in oil bonds at Rs21b (v/s our estimate of Rs33.3b) and higher other expenditure, partially compensated by higher GRM and throughput.
- **Fully compensated for under-recoveries in FY09:** Led by positive margins in petrol and diesel, BPCL reported gross over-recovery of Rs8b in 4QFY09. It received oil bonds of Rs21b (v/s our estimate of Rs33b) and marginal upstream discounts of Rs2.4b (v/s our estimate of nil), resulting in net over-recovery of Rs31b in 4QFY09. For the full year, BPCL's under-recovery of Rs238b was fully compensated by oil bonds of Rs162b and upstream discounts of Rs76b.
- **Reported blended GRM of US\$4.9/bbl:** BPCL's reported blended GRM for 4QFY09 was US\$4.9/bbl (v/s our estimate of US\$4/bbl) as against US\$6.8/bbl in 4QFY08 and US\$0.5/bbl in 3QFY09. For the Mumbai and Kochi refineries, GRMs were US\$5.1/bbl and US\$4.6/bbl, respectively. Throughput in 4QFY09 was at 5.3mmt, up 6% YoY and QoQ.
- **Maintain Buy:** The key issue to watch in the near term would be likely freeing of retail prices (the Petroleum Minister has indicated that the proposal to free retail prices will be submitted to the Cabinet Committee in 6-8 weeks). The stock trades at 9.9x FY10E EPS of Rs46.8 and 1.1x FY10E BV of Rs406. Our target price is under review.

QUARTERLY PERFORMANCE (STANDALONE)

(RS MILLION)

Y/E MARCH	FY08				FY09				FY08	FY09
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
Net Sales	238,694	251,704	289,284	325,420	390,220	378,262	318,845	265,050	1,105,102	1,352,377
Change (%)	5.1	-5.1	19.5	34.9	63.5	50.3	10.2	-18.6	13.3	22.4
Raw Material Consumed	111,518	113,211	137,007	132,175	145,081	168,403	147,535	94,109	493,911	555,128
Staff Cost	2,800	2,825	2,798	4,550	6,707	3,115	7,540	1,487	12,973	18,849
Finished Goods Purchase	113,551	107,840	137,893	166,231	223,357	206,885	140,027	108,409	525,515	678,678
Other Exp	8,765	12,179	7,215	13,864	22,768	21,534	8,533	19,514	42,023	72,350
EBITDA	2,060	15,649	4,371	8,600	-7,693	-21,674	15,209	41,531	30,680	27,373
Change (%)	nm	-8.7	-36.6	-32.5	nm	nm	247.9	382.9	-10.2	-10.8
% of Sales	0.9	6.2	1.5	2.6	-2.0	-5.7	4.8	15.7	2.8	2.0
Depreciation	2,276	2,322	3,065	3,319	2,691	2,419	3,014	2,631	10,982	10,756
Interest	1,240	1,228	1,620	2,156	3,016	5,338	7,161	6,149	6,244	21,664
Other Income	4,341	3,652	3,183	1,343	2,757	3,225	3,002	6,104	12,519	15,087
PBT	2,885	15,751	2,869	4,468	-10,643	-26,207	8,036	38,854	25,973	10,041
Tax	958	5,369	-44	3,884	24	46	38	2,574	10,167	2,682
Rate (%)	33.2	34.1	-1.5	86.9	-0.2	-0.2	0.5	6.6	39.1	26.7
PAT	1,927	10,382	2,913	584	-10,667	-26,253	7,998	36,280	15,806	7,359
Change (%)	nm	-17.5	-4.0	-91.3	nm	nm	174.5	6,112.3	-12.5	-53.4
Adj. PAT	1,646	10,382	1,634	584	-10,667	-26,253	7,998	36,280	14,246	7,359

E: MOSL Estimates

4QFY09 numbers lower than estimated

BPCL reported EBITDA of Rs41.5b (v/s our estimate of Rs52b), up 383% YoY and 173% QoQ. Lower than estimated EBITDA is primarily due to lower than factored in oil bonds at Rs21b (v/s our estimate of Rs33.3b) and higher other expenditure, partially compensated by higher GRM and throughput.

Fully compensated for under-recoveries in FY09

Led by positive margins in petrol and diesel, BPCL reported gross over-recovery of Rs8b in 4QFY09. It received oil bonds worth Rs21b (v/s our estimate of Rs33b) and marginal upstream discounts of Rs2.4b (v/s our estimate of nil), resulting in net over-recovery of Rs31b.

For the full year, BPCL's under-recovery of Rs238b was fully compensated by oil bonds of Rs162b and upstream discounts of Rs76b.

SUBSIDY SHARING: FULLY COMPENSATED FOR UNDER RECOVERIES IN FY09 (RS B)

	1QFY08	2QFY08	3QFY08	4QFY08	1QFY09	2QFY09	3QFY09	4QFY09	YOY (%)	QOQ (%)	FY08	FY09	YOY (%)
Gross Under recovery	28.3	29.8	50.0	71.9	115.0	103.0	27.8	(8.0)	nm	nm	180.0	237.7	32
Less: Sharing													
Upstream Sharing	9.6	10.2	16.2	23.7	26.6	34.2	12.4	2.4	-90	-81	59.8	75.6	26
Oil Bonds	0.0	25.4	20.8	39.7	57.7	47.8	36.0	20.7	-48	-42	85.9	162.2	89
Net Under/ (over)recovery	18.7	(5.8)	13.0	8.5	30.8	21.0	(20.6)	(31.1)	nm	nm	34.4	0.0	nm

Source: Company/MOSL

Operational performance

Reported blended GRM for 4QFY09 was US\$4.9/bbl (v/s our estimate of US\$4/bbl) as against US\$6.8/bbl in 4QFY08 and US\$0.5/bbl in 3QFY09. For the Mumbai and Kochi refineries, GRMs were US\$5.1/bbl and US\$4.6/bbl, respectively.

Throughput in 4QFY09 was at 5.3mmt, up 6% YoY and QoQ. The Mumbai refinery achieved throughput of 3.3mmt (v/s 3mmt in 4QFY08 and 3.1mmt in 3QFY09). The Kochi refinery achieved throughput of 2mmt (flat YoY; 1.7mmt in 3QFY09).

OPERATIONAL HIGHLIGHTS

	1QFY08	2QFY08	3QFY08	4QFY08	1QFY09	2QFY09	3QFY09	4QFY09	YOY (%)	QOQ (%)	FY08	FY09	YOY (%)
Product Sales (mmt)	6.3	5.8	6.7	7.0	6.9	6.3	6.8	7.1	4	4	25.8	27.1	5
Throughput (mmt)													
Mumbai	3.2	3.4	3.1	3.0	3.1	3.1	3.1	3.3	6	6	12.7	12.7	-1
Kochi	2.0	2.1	2.1	2.0	1.9	2.2	1.7	2.0	16	16	8.2	7.7	-6
Total	5.2	5.6	5.2	5.0	5.0	5.3	4.8	5.3		10	20.9	20.4	-3
GRM (US\$/bbl)													
Mumbai	6.5	2.7	4.1	5.2	9.3	1.6	2.0	5.1	151	151	4.6	4.5	-3
Kochi	8.0	4.8	7.1	9.1	18.7	6.0	(2.3)	4.6	-297	-297	7.2	6.3	-13
Blended GRM	7.1	3.5	5.3	6.8	12.8	3.4	0.5	4.9	847	847	5.7	5.2	-9

Source: Company/MOSL

Financial highlights

- Interest expenses were Rs6b (vs our estimate of Rs5.1b) in 4QFY09. Gross Debt as on 31 March 2009 stood at Rs210b.
- Other Income of Rs6b was higher than estimate at of Rs3.5b.
- Capex in FY09 was ~Rs40b.
- Oil bonds on the books as on 31 March 2009 were Rs155b and BPCL is yet to receive oil bonds worth Rs21b from the government.

Valuation and view

The key issue to watch in the near term would be likely freeing of retail prices (the Petroleum Minister has indicated that the proposal to free retail prices will be submitted to the Cabinet Committee in 6-8 weeks). The stock trades at 9.9x FY10E EPS of Rs46.8 and 1.1x FY10E BV of Rs406. Our target price is under review.

BPCL: an investment profile

Company description

Fortune 500 company, BPCL has interests in oil refining and marketing of petroleum products. It is the third largest refining company in India with a refining capacity of 12mtpa at Mumbai and 7.5mtpa at Kochi. BPCL also has a majority stake (63%) in Numaligarh Refineries, a 3mtpa refinery in the North East. BPCL has investments in IGL (22.5% stake) and Petronet LNG (12.5% stake). BPCL is a Public Sector Company with 54.93% Government of India stake.

Key investment arguments

- Quantum of underrecoveries and sharing mechanism, rather than fundamentals remain the key determining factor in BPCL's profitability. However, recently rejuvenated hopes by the government of fuel de-regulation would lead to re-rating for the stock.
- BPCL currently has 50% stake (likely to reduce to ~48% post planned IPO) in Rs104b, 6mtpa Bina Refinery. Refinery is anticipated to complete by Dec-2009.

Key investments risks

- Government policy of controlling fuel prices remains a concern for the stock.
- Non commensurate increase in the fuel prices with reference to oil prices leads to under recoveries for the company and ad-hoc nature of subsidy sharing impacts the profits.

Recent developments

- Petroleum Minister recently announced that the proposal to free fuel pricing will be presented to cabinet committee in 6-8 weeks. If retail fuel prices are de-controlled then it would lead to re-rating for the stock.

Valuation and view

- The stock trades at 9.9x FY10 EPS of Rs46.8 and 1.1x FY10 BV of Rs406. Our target price is under review.

Sector view

- Refining outlook remains weak as 1.2-1.4mmbbl/d of new capacity (incl RPET) will be operational in next few months, on the back drop of weak global demand leading to lower operating rates.

TARGET PRICE AND RECOMMENDATION

CURRENT PRICE (RS)	TARGET PRICE (RS)	UPSIDE (%)	RECO.
465	-	-	Buy

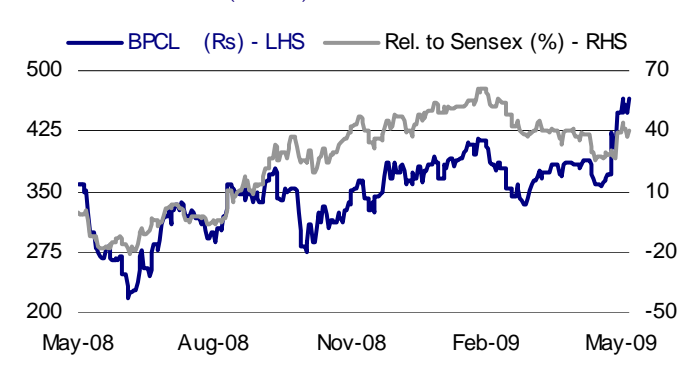
EPS: MOSL FORECAST VS CONSENSUS (RS)

	MOST FORECAST	CONSENSUS FORECAST	VARIATION (%)
FY10	46.8	47.2	-1.0
FY11	48.2	49.2	-2.0

SHAREHOLDING PATTERN (%)

	MAR-09	DEC-08	MAR-08
Promoter	64.7	64.7	69.0
Domestic Inst	5.6	5.8	11.9
Foreign	24.5	24.4	13.9
Others	5.2	5.1	5.3

STOCK PERFORMANCE (1 YEAR)



INCOME STATEMENT (CONSOLIDATED)		(Rs Million)			
Y/E MARCH	2008	2009	2010E	2011E	
Net Sales	1,112,431	1,365,571	891,193	949,843	
Change (%)	13.3	22.8	-34.7	6.6	
Finished Gds Purchase	447,583	601,199	303,652	338,720	
RM & Other exp	567,540	634,443	502,834	528,257	
Other operating expenses	60,271	96,281	41,078	42,822	
EBITDA	37,037	33,648	43,629	40,045	
% of Net Sales	3.3	2.5	4.9	4.2	
Depreciation	12,921	12,617	15,492	16,912	
Interest	7,149	24,043	13,151	9,841	
Other Income	11,673	14,358	11,520	13,501	
Extraordinary Items (net)	1,560	0	0	0	
PBT	30,200	11,346	26,507	26,793	
Tax	11,075	4,104	8,205	7,964	
Rate (%)	30.0	30.0	31.0	29.7	
Minority Interest	1,430	904	1,385	1,385	
Exceptional Item					
PAT	17,695	6,338	16,917	17,444	
Adj. PAT	15,143	6,338	16,917	17,444	
Change (%)	-28.3	-58.1	166.9	3.1	

BALANCE SHEET		(Rs Million)			
Y/E MARCH	2008	2009E	2010E	2011E	
Share Capital	3,615	3,615	3,615	3,615	
Reserves	125,454	128,881	143,304	158,253	
Net Worth	129,069	132,496	146,919	161,868	
Minority interest	8,606	9,510	10,895	12,280	
Loans	160,658	217,767	152,770	122,774	
Deferred Tax	18,108	18,108	18,443	18,755	
Capital Employed	316,441	377,881	329,027	315,677	
Gross Fixed Assets	251,944	289,554	325,621	348,183	
Less: Depreciation	108,390	121,007	136,499	153,410	
Net Fixed Assets	143,554	168,547	189,123	194,773	
Capital WIP	24,414	24,414	24,414	24,414	
Investments	92,810	166,873	105,187	133,863	
Curr. Assets, L & Adv.					
Inventory	115,250	118,481	84,182	87,879	
Debtors	16,679	19,804	12,349	12,266	
Cash & Bank Balance	15,889	12,700	47,663	4,463	
Loans & Advances	67,320	46,623	25,969	25,969	
Current Liab. & Prov.					
Liabilities	148,340	168,726	147,086	154,581	
Provisions	11,185	10,885	12,822	13,418	
Net Current Assets	55,613	17,997	10,254	-37,423	
Less: Miscellaneous exp.	51	51	51	51	
Application of Funds	316,441	377,881	329,027	315,677	

E: MOSL Estimates

RATIOS		(Rs Million)			
Y/E MARCH	2008	2009E	2010E	2011E	
Basic (Rs)					
EPS	41.9	17.5	46.8	48.2	
Cash EPS	77.6	52.4	89.6	95.0	
Book Value	357.0	366.5	406.4	447.7	
Dividend	4.0	7.0	6.0	6.0	
Payout (incl. Div. Tax)	25.0	19.2	39.4	14.7	
Valuation (x)					
P/E	11.1	26.5	9.9	9.6	
Cash P/E	6.0	8.9	5.2	4.9	
EV / EBITDA	8.9	11.6	6.7	7.6	
EV / Sales	0.3	0.3	0.3	0.3	
Price / Book Value	1.3	1.3	1.1	1.0	
Dividend Yield (%)	0.9	1.5	1.3	1.3	
Profitability Ratios (%)					
RoE	12.5	4.8	12.1	11.3	
RoCE	8.5	6.1	8.0	7.2	
Turnover Ratios					
Debtors (No. of Days)	5	5	7	5	
Asset Turnover (x)	4.6	2.6	2.6	3.6	
Leverage Ratio					
Debt / Equity (x)	1.2	1.6	1.0	0.8	

CASH FLOW STATEMENT		(Rs Million)			
Y/E MARCH	2008	2009E	2010E	2011E	
OP/(Loss) before Tax	28,867	11,346	26,507	26,793	
Depreciation	12,921	12,617	15,492	16,912	
Interest Paid	6,980	24,043	13,151	9,841	
Direct Taxes Paid	-9,566	-4,104	-7,870	-7,652	
Other operating items	-4,080	0	0	0	
(Inc)/Dec in Wkg. Capital	-21,793	34,427	42,706	4,477	
CF from Op. Activity	13,329	78,329	89,985	50,370	
(Inc)/Dec in FA & CWIP	-33,450	-37,610	-36,067	-22,562	
(Pur)/Sale of Investments	-16,908	-74,064	61,687	-28,676	
Other Investing					
Inc from Invst					
CF from Inv. Activity	-50,358	-111,673	25,620	-51,238	
Issue of Shares	0	0	0	0	
Net Inc / (Dec) in Debt	14,105	57,109	-64,997	-29,996	
Interest paid	-6,584	-24,043	-13,151	-9,841	
Dividends Paid	-5,285	-2,910	-2,495	-2,495	
	99	0	0	0	
CF from Fin. Activity	2,334	30,156	-80,643	-42,332	
Inc / (Dec) in Cash	-34,695	-3,189	34,963	-43,200	
Cash in hand and bank					
Closing Balance	15,514	12,700	47,663	4,463	



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Disclosure of Interest Statement

	BPCL
1. Analyst ownership of the stock	No
2. Group/Directors ownership of the stock	No
3. Broking relationship with company covered	No
4. Investment Banking relationship with company covered	No

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