

July 30, 2009

Rating	Accumulate
Price	Rs332
Target Price	Rs379
Implied Upside	14.2%
Sensex	15,173

(Prices as on July 29, 2009)

#### Trading Data

Market Cap. (Rs bn)	112.4
Shares o/s (m)	338.6
Free Float	48.9%
3M Avg. Daily Vol ('000)	469.3
3M Avg. Daily Value (Rs m)	152.3

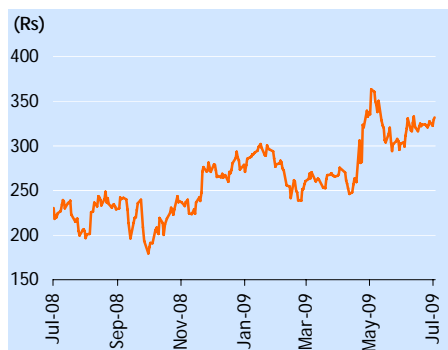
#### Major Shareholders

Government	51.1%
Foreign	9.0%
Domestic Inst.	28.6%
Public & Others	11.3%

#### Stock Performance

(%)	1M	6M	12M
Absolute	9.3	19.3	52.2
Relative	6.7	(45.0)	42.2

Price Performance (RIC: HPCL.BO, BB: HPCL IN)



Source: Bloomberg

## HPCL

### Good show

- Revenues decline:** HPCL revenues declined by 29.7% YoY to Rs244.4bn (Rs347.6bn) owing to sharp YoY reduction in the petroleum product prices.
- Crude throughput, market sales jump:** Crude throughput during Q1FY10 jumped by 22.0% YoY to 4.10mmt (3.36mmt). Consequently, the market sales also jumped by 11.0% YoY to 6.84mmt (6.16mmt) on account of a healthy demand for petroleum products in the domestic market.
- Lower under-recovery, inventory gains support bottomline:** HPCL's inventory gains for the quarter stood at about Rs10bn which helped the company to post US\$5.71/bbl (US\$16.49/bbl) GRMs. Gross under-recoveries also declined significantly to Rs11.6bn (Rs102.3bn), thus, supporting the performance. The company received Rs1.7bn (Rs23.6bn) discounts from the upstream players during Q1FY10. Other income also jumped by 85.3% YoY to Rs2.0bn (Rs1.1bn). The company, thus, reported a healthy bottom-line of Rs6.5bn for the quarter against a loss of Rs8.9bn during Q1FY09 despite any support from the government through oil bonds.
- Valuations:** The superior performance during the quarter can be attributed to lower under-recoveries on retail fuels and inventory gains. However, the company is now losing money on all the four regulated products i.e. petrol, diesel, PDS kerosene and domestic LPG. Under-recoveries on these products remain critical for HPCL in the near term. Deregulation of retail fuels in our opinion is a strong possibility in the near future. Hence, we maintain 'Accumulate' on the stock.

Key financials (Y/e March)	FY08	FY09	FY10E	FY11E
Revenues (Rs m)	1,103,591	1,290,546	1,057,984	1,221,883
Growth (%)	17.4	16.9	(18.0)	15.5
EBITDA (Rs m)	19,303	32,660	40,041	26,569
PAT (Rs m)	13,641	7,574	14,682	6,563
EPS (Rs)	40.1	22.4	43.4	19.4
Growth (%)	(18.5)	(44.2)	93.9	(55.3)
Net DPS (Rs)	4.1	5.3	7.5	7.5

Source: Company Data; PL Research

Profitability & valuation	FY08	FY09	FY10E	FY11E
EBITDA margin (%)	1.7	2.5	3.8	2.2
RoE (%)	13.4	6.9	12.3	5.2
RoCE (%)	8.4	8.9	8.3	5.5
EV / sales (x)	0.3	0.2	0.2	0.2
EV / EBITDA (x)	14.4	9.6	6.5	9.5
PE (x)	8.3	14.8	7.7	17.1
P / BV (x)	1.1	1.0	0.9	0.9
Net dividend yield (%)	1.2	1.6	2.3	2.3

Source: Company Data; PL Research

Rohit Nagraj  
 RohitNagraj@PLIndia.com  
 +91-22-6632 2241



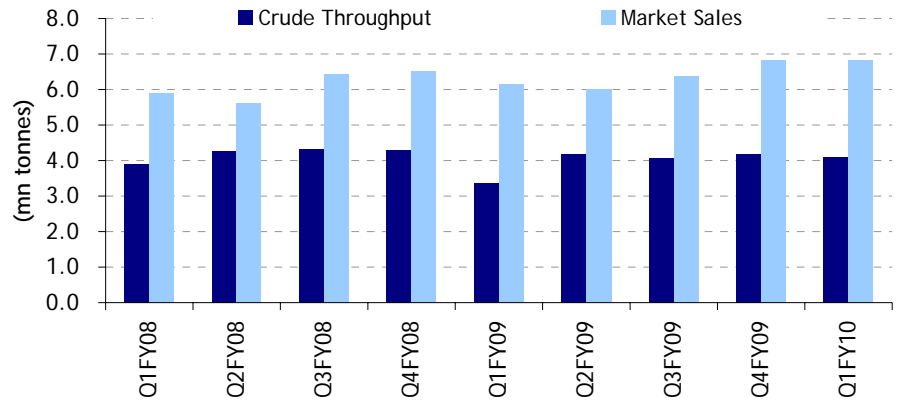
## Q1FY10 Result Overview

(Rs m)

Y/e March	Q1FY10	Q1FY09	YoY gr. (%)	Q4FY09	FY10E	FY09	YoY gr. (%)
Net Sales	244,362	347,576	(29.7)	253,637	989,704	1,250,861	(20.9)
<b>Expenditure</b>							
Raw material	215,097	334,839	(35.8)	187,814	900,786	1,162,266	(22.5)
<i>% of net sales</i>	<i>88.0</i>	<i>96.3</i>		<i>74.0</i>	<i>91.0</i>	<i>92.9</i>	
Personnel cost	6,057	3,829	58.2	(125)	9,897	11,372	(13.0)
<i>% of net sales</i>	<i>2.5</i>	<i>1.1</i>		<i>(0.0)</i>	<i>1.0</i>	<i>0.9</i>	
Other operating expenses	9,946	12,428	(20.0)	9,478	42,557	45,180	(5.8)
<i>% of net sales</i>	<i>4.1</i>	<i>3.6</i>		<i>3.7</i>	<i>4.3</i>	<i>3.6</i>	
<b>EBITDA</b>	<b>13,262</b>	<b>(3,520)</b>	<b>-</b>	<b>56,470</b>	<b>36,464</b>	<b>32,044</b>	<b>13.8</b>
<i>Margin (%)</i>	<i>5.4</i>	<i>(1.0)</i>		<i>22.3</i>	<i>3.7</i>	<i>2.6</i>	
Depreciation	2,629	2,367	11.1	2,545	11,507	9,813	17.3
<b>EBIT</b>	<b>10,633</b>	<b>(5,886)</b>		<b>53,925</b>	<b>24,958</b>	<b>22,231</b>	<b>12.3</b>
Interest	2,702	4,064	(33.5)	3,779	13,125	20,828	(37.0)
Other Income	2,018	1,089	85.3	2,167	7,500	5,202	44.2
<b>PBT</b>	<b>9,948</b>	<b>(8,861)</b>	<b>-</b>	<b>52,313</b>	<b>19,333</b>	<b>6,605</b>	<b>192.7</b>
Total taxes	3,457	20	-	2,350	6,573	2,350	179.7
<i>ETR (%)</i>	<i>34.8</i>	<i>(0.2)</i>	<b>-</b>	<i>4.5</i>	<i>34.0</i>	<i>35.6</i>	
FBT	-	-		40	-	140	-
<b>Rep. PAT</b>	<b>6,491</b>	<b>(8,881)</b>	<b>-</b>	<b>49,923</b>	<b>12,760</b>	<b>4,114</b>	<b>-</b>
Exceptional Items	-	-		(1,118)	-	(1,118)	
<b>Adj. PAT</b>	<b>6,491</b>	<b>(8,881)</b>	<b>-</b>	<b>51,040</b>	<b>12,760</b>	<b>5,232</b>	<b>143.9</b>

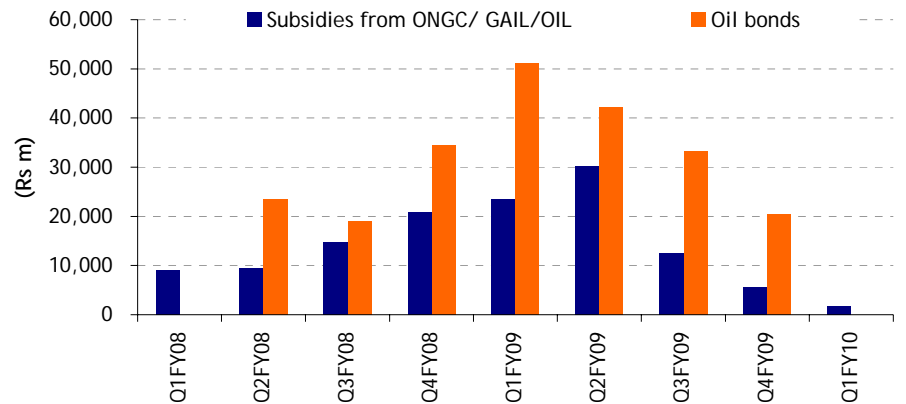
## Highlights

### Crude throughput and market sales



Source: Company Data, PL Research

### Sharing of under-recoveries



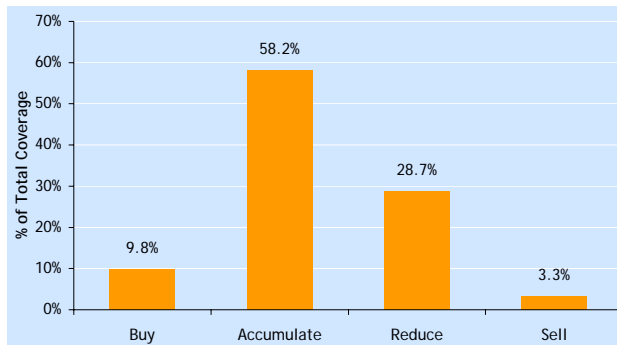
Source: Company Data, PL Research

Prabhudas Lilladher Pvt. Ltd.

3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India

Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209

### Rating Distribution of Research Coverage



### PL's Recommendation Nomenclature

<b>BUY</b>	: Over 15% Outperformance to Sensex over 12-months	<b>Accumulate</b>	: Outperformance to Sensex over 12-months
<b>Reduce</b>	: Underperformance to Sensex over 12-months	<b>Sell</b>	: Over 15% underperformance to Sensex over 12-months
<b>Trading Buy</b>	: Over 10% absolute upside in 1-month	<b>Trading Sell</b>	: Over 10% absolute decline in 1-month
<b>Not Rated (NR)</b>	: No specific call on the stock	<b>Under Review (UR)</b>	: Rating likely to change shortly

This document has been prepared by the Research Division of Prabhudas Lilladher Pvt. Ltd. Mumbai, India (PL) and is meant for use by the recipient only as information and is not for circulation. This document is not to be reported or copied or made available to others without prior permission of PL. It should not be considered or taken as an offer to sell or a solicitation to buy or sell any security.

The information contained in this report has been obtained from sources that are considered to be reliable. However, PL has not independently verified the accuracy or completeness of the same. Neither PL nor any of its affiliates, its directors or its employees accept any responsibility of whatsoever nature for the information, statements and opinion given, made available or expressed herein or for any omission therein.

Recipients of this report should be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The suitability or otherwise of any investments will depend upon the recipient's particular circumstances and, in case of doubt, advice should be sought from an independent expert/advisor.

Either PL or its affiliates or its directors or its employees or its representatives or its clients or their relatives may have position(s), make market, act as principal or engage in transactions of securities of companies referred to in this report and they may have used the research material prior to publication.

We may from time to time solicit or perform investment banking or other services for any company mentioned in this document.

#### For Clients / Recipients in United States of America:

All materials are furnished courtesy of Direct Access Partners LLC ("DAP") and produced by Prabhudas Lilladher Pvt. Ltd. ("PLI"). This is material is for informational purposes only and provided to Qualified and Accredited Investors. You are under no obligation to DAP or PLI for the information provided herein unless agreed to by all of the parties, Additionally you are prohibited from using the information for any reason or purpose outside its intended use. Any questions should be directed to Gerard Visci at DAP at 212.850.8888.