

November 10, 2010

Reco	Previous Reco
Accumulate	Buy
CMP	Target Price
Rs.756	Rs.805
EPS change FY11E/12E (%)	NA
Target Price change (%)	19.2
Nifty	6275
Sensex	20875

Price Performance (%)	1M	3M	6M	12M
Absolute	(0)	15	38	44
Rel. to Nifty	(4)	0	12	12

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	Oil & Gas
Bloomberg	BPCL@IN
Equity Capital (Rs mn)	3615
Face Value(Rs)	10
No of shares o/s (mn)	362
52 Week H/L	815/489
Market Cap (Rs bn/USD mn)	269/6,065
Daily Avg Volume (No of sh)	1635270
Daily Avg Turnover (US\$m)	27.5

Shareholding Pattern (%)

	S'10	J'10	M'10
Promoters	54.9	54.9	54.9
FII/NRI	8.3	7.4	8.1
Institutions	18.6	19.5	19.5
Private Corp	4.6	4.6	4.0
Public	13.7	13.6	13.5

Source: Capitaline

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- **BPCL reported results which were above our estimates at EBIDTA and PAT Level, primarily due to issuance of oil bonds/Cash receivables during the quarter**
- **EBIDTA at Rs.24.8bn, against EBIDTA loss of Rs0.9bn, mainly due to issuance of oil bonds/cash receivables from the government of India**
- **Average gross refining margin for 1H FY11 was at \$3.19/bbl as compared to \$3.53/bbl (decline of 10% YoY) below our expectation of \$3.7/bbl**
- **Valuations look attractive at 1.4x FY12E ABV, mainly due to recent change in reforms, Accumulate rating with TP of Rs.805**

Highlights of the results

BPCL reported results which were above our estimates at EBIDTA and PAT Level, primarily due to Inventory gain and issuance of oil bonds/cash pay out by the government during the quarter. Revenue for the quarter was at Rs. 354bn (against our expectation of Rs.318bn), growth of 31%, mainly on account of higher throughput and cash compensation received by the government of Rs.29.4bn. EBIDTA during the quarter was at Rs.24.8bn, against EBIDTA loss of 0.9bn a year ago. During the quarter Inventory gain were at Rs.21bn as compared to inventory gain of Rs.3.2bn in Q1FY11. Interest cost increased by 4% to Rs.2.7bn. During the quarter the company reported net profit of Rs.21.4bn, against net loss of 1.6bn, mainly due to issuance of oil bonds/cash receivables by the government.

The company received upstream discount of Rs. 8.2bn, in respect of crude Oil/LPG/SKO purchased from them has been accounted during the quarter. The company has received budgetary support of Rs.29.4bn 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.

Marginal increase in Interest cost

During the quarter, interest costs increased by 4% to Rs.2.7bn compare to Rs.2.6bn on YoY basis.

Average GRM was at \$2.8 per bbl as against \$3.57 per bbl on QoQ

Lower product demand, especially in light distillate, has seen product spreads reducing in Q2FY11. During the quarter average gross refining margin was at \$2.8/bbl as compared to \$3.57/bbl (declined by 21% QoQ). 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	42.4	10.0	2.0
FY10	1239007	30601	2.5	16593	45.9	161.8	11.1	16.2	11.4	1.8
FY11E	1440249	42581	3.0	18854	52.1	13.6	11.3	14.3	8.0	1.6
FY12E	1484655	48015	3.2	19642	54.3	4.18	10.5	13.7	6.7	1.4

Source: Company, Emkay Research

Financial Snapshot

Rs Mn

Rs mn	Q2 FY10	Q3 FY10	Q4 FY10	Q1 FY11	Q2 FY11	YoY (%)	QoQ (%)	YTD'10	YTD'09	YoY (%)
Revenue	270,923	321,829	375,703	342,325	354,348	30.8	3.5	696,673	526,067	32.4
Expenditure	271,873	315,385	364,237	356,384	329,483	21.2	(7.5)	685,867	519,347	32.1
<i>as % of sales</i>	<i>100.4</i>	<i>98.0</i>	<i>96.9</i>	<i>104.1</i>	<i>93.0</i>					
Consumption of RM	248,321	298,273	323,440	330,287	301,556	21.4	(8.7)	631,843	475,101	33.0
<i>as % of sales</i>	<i>91.7</i>	<i>92.7</i>	<i>86.1</i>	<i>96.5</i>	<i>85.1</i>					
Employee Cost	5,534	3,982	7,655	5,412	4,526	(18.2)	(16.4)	9,939	9,774	1.7
<i>as % of sales</i>	<i>2.0</i>	<i>1.2</i>	<i>2.0</i>	<i>1.6</i>	<i>1.3</i>					
Other expenditure	18,018	13,129	33,142	20,685	23,401	29.9	13.1	44,085	34,471	27.9
<i>as % of sales</i>	<i>6.7</i>	<i>4.1</i>	<i>8.8</i>	<i>6.0</i>	<i>6.6</i>					
EBITDA	-950	6,444	11,466	-14,059	24,865	(2,717.1)	(276.9)	10,806	6,720	60.8
Depreciation	3,088	3,816	3,208	4,007	4,019	30.1	0.3	8,026	5,399	48.7
EBIT	-4,038	2,628	8,258	-18,066	20,846	(616.2)	(215.4)	2,780	1,321	110.4
Other Income	4,211	4,656	5,884	3,209	5,336	26.7	66.3	8,545	11,023	-22.5
Interest	2673	2513	2059	2324	2780	4.0	19.6	5,103	5,538	-7.8
PBT	(2,500)	4,771	12,083	(17,181)	23,402	(1,036.1)	(236.2)	6,221	6,806	-8.6
Total Tax	(912)	980	5,052	-	1,980	(317.1)	-	1,980	2,253	-12.1
Adjusted PAT	(1,588)	3,791	7,032	(17,181)	21,422	(1,449.3)	(224.7)	4,241	4,554	-6.9
(Profit)/loss from JV's/Ass/MI	-	-	-	-	-	-	-	0	0	
APAT after MI	(1,588)	3,791	7,032	(17,181)	21,422	(1,449.3)	(224.7)	4,241	4,554	-6.9
Extra ordinary items	-	-	-	-	-	-	-	0	0	
Reported PAT	(1,587.7)	3,790.9	7,031.8	(17,181.0)	21,422.2	(1,449.3)	(224.7)	4,241	4,554	-6.9
Reported EPS	(4.4)	10.5	19.5	(47.5)	59.3	(1,449.3)	(224.7)	12	13	-6.9

Margins (%)	Q2 FY10	Q3 FY10	Q4 FY10	Q1 FY11	Q2 FY11	(bps)	(bps)	YTD'10	YTD'09	(bps)
EBIDTA	(0.4)	2.0	3.1	(4.1)	7.0	736.8	1,112.4	1.6	1.3	27.4
EBIT	(1.5)	0.8	2.2	(5.3)	5.9	737.4	1,116.0	0.4	0.3	14.8
EBT	(0.9)	1.5	3.2	(5.0)	6.6	752.7	1,162.3	0.9	1.3	-40.1
PAT	(0.6)	1.2	1.9	(5.0)	6.0	663.2	1,106.4	0.6	0.9	-25.7
Effective Tax rate	36.5	20.5	41.8	-	8.5	(2,802.9)	846.1	31.8	33.1	-127.2

Valuations

Though in the last few years, OMC's have been de-rated due to rising crude oil price and lack of policy initiatives from the government. Historic evidence suggests that OMC's have been re-rated on expectations of policy initiatives, despite increase in the crude oil prices. We note that in FY03-04, OMC's P/BV increased from 1.2-1.3x to 2x despite crude prices increasing from US\$30/bbl to US\$40/bbl. With the new reform, scenario has changed with better clarity in policy. Currently OMC's are trading in the range of 1-1.4x FY12 BV and we believe it to command higher multiple (20% premium, compared to current level of 1.2-1.4x) backed by A) the expected implementation of diesel deregulation over next 6-8months B) Better clarity on sharing mechanism (upstream companies sharing entire 1/3rd of the total under recovery) C) Expectation of increase in either diesel and petrol prices or change in duty structure by the GOI (backed by higher crude prices to reduce the under recovery) D) Improvement in the earnings due to deregulation. However, pressure on the US dollar has been diverting interest of investors towards commodities including crude oil. If US dollar continues to remain under pressure, the commodities are likely to stay firm including crude oil, hurting the OMC's performance.

Though there has been some clarity on sharing mechanism 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. Possible stock triggers for BPCL in the long term include IPO listing for Bina Refinery (expected in FY12) and exploration upsides from upstream assets. At CMP of Rs.756, the stock trades at 1.6x and 1.4x FY11E and FY12E P/BV. We have upgraded our target multiple from 1.4x to 1.6x for FY12E P/BV and upgrade our target price to Rs.805 (Rs.675, earlier), based on the above mention rationale. Despite of higher valuation, we cut our rating on the stock from BUY to ACCUMULATE due to limited upside.

Financials

Income Statement

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

Cash Flow

Y/E, Mar (Rs. mn)	FY09	FY10P	FY11E	FY12E
PBT (Ex-Other income)	11,346	27,991	28,141	29,316
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
Operating Cash flow	70,175	20,282	38,427	42,878
Capital expenditure	(44,851)	(24,200)	(14,200)	(9,200)
Free Cash Flow	25,324	-3,918	24,227	33,678
Other income	-	-	-	-
Investments	(202,357)	40,000	40,000	30,000
Investing Cash flow	-126,185	15,800	25,800	20,800
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	-	-	-	-
Financing Cash flow	856	-49,631	-55,101	-54,212
Net chg in cash	-57,010	-13,549	9,125	9,466
Opening cash position	(40,534)	(17,373)	3,824	12,950
Closing cash position	-16,476	3,824	12,950	22,416

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
Net worth	133,112	149,214	167,576	186,727
Minority Interest	2,821	2,821	2,821	2,821
Secured Loans	66,813	66,813	66,813	56,813
Unsecured Loans	175,578	140,578	100,578	70,578
Loan Funds	242,392	207,392	167,392	127,392
Net deferred tax liability	15,257	15,257	15,257	15,257
Total Liabilities	399,775	380,876	359,239	338,389
Gross Block	263,546	292,746	321,946	346,146
Less: Depreciation	120,483	135,429	150,682	166,882
Net block	143,062	157,317	171,264	179,264
Capital work in progress	61,726	56,726	41,726	26,726
Investment	164,000	124,000	84,000	54,000
Current Assets				
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
Current lia & Prov				
Current liabilities	122,751	111,045	126,247	128,255
Provisions	18,209	15,855	18,322	18,817
Net current assets	27,132	40,317	56,340	69,098
Misc. exp	-	-	-	-
Total Assets	399,775	380,876	359,239	338,389

Key ratios

Y/E, Mar	FY09	FY10P	FY11E	FY12E
Profitability (%)				
EBITDA Margin	2.8	2.5	3.0	3.2
Net Margin	0.5	1.4	1.4	1.5
ROCE	9.8	10.0	10.7	11.4
ROE	4.8	11.8	11.9	11.1
RoIC	20.4	21.8	19.0	17.5
Per Share Data (Rs)				
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
Valuations (x)				
PER	42.4	16.2	14.3	13.7
P/CEPS	14.2	8.7	8.0	7.6
P/BV	2.0	1.8	1.6	1.4
EV / Sales	0.3	0.3	0.2	0.2
EV / EBITDA	10.0	11.4	8.0	6.7
Dividend Yield (%)	1.9	1.1	1.1	1.1
Gearing Ratio (x)				
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
30/07/2010	BPCL Q1FY11 Result Update	Buy	642	675
28/05/2010	BPCL Q4FY10 Result Update	Buy	555	675
29/01/2010	BPCL Q3FY10 Result Update	Buy	542	675
30/10/2009	BPCL Q2FY10 Result Update	Buy	506	675

Recent Research Reports

Date	Reports	Reco	CMP	Target
26/07/2010	IOCL Q1FY11 Result Update	Buy	372	392
26/07/2010	HPCL Q1FY11 Result Update	Buy	436	515
28/06/2010	Oil and Gas Event Update			
31/05/2010	IOCL Q4FY10 Result Update	Buy	340	392

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