

May 31, 2011

Reco	Previous Reco
Accumulate	Accumulate
CMP	Target Price
Rs. 627	Rs. 684
EPS change FY12E/13E (%)	-9.2/0
Target Price change (%)	1.7
Nifty	5,473
Sensex	18,232

#### Price Performance

(%)	1M	3M	6M	12M
Absolute	0	16	(8)	11
Rel. to Nifty	6	14	(1)	4

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	815/515
Market Cap (Rs bn/USD mn)	227/5,036
Daily Avg Volume (No of sh)	162839
Daily Avg Turnover (US\$m)	2.2

#### Shareholding Pattern (%)

	Mar-11	Dec-10	Sep-10
Promoters	54.9	54.9	54.9
FII/NRI	7.0	7.7	8.3
Institutions	20.0	19.2	18.6
Private Corp	4.2	4.3	4.6
Public	13.9	13.9	13.7

Source: Capitaline

#### Dhaval Joshi

dhaval.joshi@emkayglobal.com

+91 22 6612 1282

- BPCL reported results which were above our estimates with Revenue at Rs.452bn and PAT at Rs.9.3bn
- Crude throughput declined marginally by 1.9% to 5.58mmt, while market sales has grown by 6.3% to 7.76mmt
- Average gross refining margin for FY11 was at \$4.47/bbl as compared to \$2.97/bbl ( growth of 50% YoY)
- Valuations look reasonable at 1.2x FY13E ABV, maintain ACCUMULATE rating with revised TP of Rs.684

#### Highlights of the results

BPCL reported results were above our estimates, primarily due to volume growth plus better realisation during the quarter. Also company got higher subsidy sharing as discount from upstream companies inline with the recent announced made by the government last week. Revenue for the quarter was at Rs.452bn (against our expectation of Rs. 399bn), growth of 20.5% YoY, mainly on account of higher volumes plus higher petroleum product prices. During the quarter company has received cash compensation from the government of Rs.34.2bn. EBIDTA during the quarter was at Rs.16.6bn, as against Rs.11.4bn, growth of 45.2%, YoY. During the quarter company reported inventory gain of Rs.4.5bn as against Rs.6.9bn a year ago. Interest cost increased by 53.4% to Rs.3.1bn. During the quarter the company reported net profit of Rs.9.3bn, against Rs.7bn, growth of 33% YoY.

The company received upstream discount of Rs.34.2bn, in respect of crude Oil/LPG/SKO purchased from them has been accounted during the quarter. The company has received budgetary support of Rs.46.6bn from the GOI for the under-recovery of cooking fuel and auto fuel during the quarter.

#### Clarity on subsidy sharing mechanism is cleared for FY11 but not yet cleared for FY12E

Last week Government has announced subsidy sharing formula for FY11 and forced upstream companies to bear higher burden of 38.7% or Rs.301bn from 33.3% earlier. For the full year the government has provided 52.5% or Rs.410bn as cash compensation and balance has been borne by the OMC's. There is the still uncertainty hovering on subsidy sharing mechanism for FY12E under recovery, which remains a key overhang on the stock.

#### Interest cost increased by 53.4% YoY to Rs.3.1bn

During the quarter, interest costs have increased significantly by 53.4% to Rs.3.1bn in tandem with increase in borrowings during the quarter.

#### GRM was at \$6.91 per bbl as against \$4.61per bbl on QoQ

Higher product demand, especially in light distillate, has led to product spreads increasing in Q4FY11. During the quarter gross refining margin was at \$6.91/bbl as compared to \$4.61/bbl (Increased by 50% QoQ). We expect GRM's to improve further in the coming quarters, in tandem with the improvement in the global economy, which will improve the petro product spreads.

#### Valuation table

Y/E, Mar	Net	EBIDTA	APAT	AEPS	EPS	RoE	P/E	EV/	P/
Rs Mn	Sales	(Rs mn)	(%)		% chg	(%)		EBIDTA	BV
FY10	1238167	30539	2.5	16324	45.2	157.6	11.9	13.9	12.0
FY11	1537251	43414	2.8	16350	45.2	0.2	11.0	13.9	8.3
FY12E	1538281	45604	3.0	17047	47.2	4.27	10.3	13.3	7.9
FY13E	1540307	45,759	3.0	18,052	49.9	5.89	9.9	12.6	7.7

Source: Company, Emkay Research

## Financial Snapshot (Standalon No.)

Rs Mn

Rs mn	Q4 FY10	Q1 FY11	Q2 FY11	Q3 FY11	Q4 FY11	YoY (%)	QoQ (%)	FY11	FY10	YoY (%)
<b>Revenue</b>	<b>375,703</b>	<b>342,325</b>	<b>354,348</b>	<b>366,859</b>	<b>452,720</b>	20.5	23.4	<b>1,516,252</b>	<b>1,223,599</b>	23.9
<b>Expenditure</b>	<b>364,237</b>	<b>356,384</b>	<b>329,483</b>	<b>359,370</b>	<b>436,074</b>	19.7	21.3	<b>1,481,311</b>	<b>1,198,969</b>	23.5
<i>as % of sales</i>	96.9	104.1	93.0	98.0	96.3			97.7	98.0	
Consumption of RM	323,440	330,287	301,556	334,242	404,321	25.0	21.0	<b>1,370,406</b>	<b>1,096,815</b>	24.9
<i>as % of sales</i>	86.1	96.5	85.1	91.1	89.3			90.4	89.6	
Employee Cost	7,655	5,412	4,526	5,696	12,394	61.9	117.6	<b>28,029</b>	<b>21,411</b>	30.9
<i>as % of sales</i>	2.0	1.6	1.3	1.6	2.7			1.8	1.7	
Other expenditure	33,142	20,685	23,401	19,433	19,359	(41.6)	(0.4)	<b>82,877</b>	<b>80,743</b>	2.6
<i>as % of sales</i>	8.8	6.0	6.6	5.3	4.3			5.5	6.6	
<b>EBITDA</b>	<b>11,466</b>	<b>-14,059</b>	<b>24,865</b>	<b>7,489</b>	<b>16,645</b>	45.2	122.3	<b>34,941</b>	<b>24,630</b>	41.9
Depreciation	3,208	4,007	4,019	3,700	4,828	50.5	30.5	<b>16,554</b>	<b>12,423</b>	33.3
<b>EBIT</b>	<b>8,258</b>	<b>-18,066</b>	<b>20,846</b>	<b>3,789</b>	<b>11,818</b>	43.1	211.9	<b>18,387</b>	<b>12,207</b>	50.6
Other Income	5,884	3,209	5,336	3,103	5,101	(13.3)	64.4	<b>16,748</b>	<b>21,563</b>	-22.3
Interest	2059	2324	2780	2747	3157	53.4	14.9	<b>11,008</b>	<b>10,110</b>	8.9
<b>PBT</b>	<b>12,083</b>	<b>(17,181)</b>	<b>23,402</b>	<b>4,145</b>	<b>13,761</b>	13.9	232.0	<b>24,127</b>	<b>23,661</b>	2.0
Total Tax	5,052	-	1,980	2,270	4,410	(12.7)	94.3	<b>8,660</b>	<b>8,284</b>	4.5
<b>Adjusted PAT</b>	<b>7,032</b>	<b>(17,181)</b>	<b>21,422</b>	<b>1,875</b>	<b>9,352</b>	33.0	398.9	<b>15,468</b>	<b>15,376</b>	0.6
(Profit)/loss from JV's/Ass/MI	-	-	-	-	-			<b>0</b>	<b>0</b>	
<b>APAT after MI</b>	<b>7,032</b>	<b>(17,181)</b>	<b>21,422</b>	<b>1,875</b>	<b>9,352</b>	33.0	398.9	<b>15,468</b>	<b>15,376</b>	0.6
<b>Extra ordinary items</b>	-	-	-	-	-			<b>0</b>	<b>0</b>	
<b>Reported PAT</b>	<b>7,031.8</b>	<b>(17,181.0)</b>	<b>21,422.2</b>	<b>1,874.5</b>	<b>9,351.8</b>	33.0	398.9	<b>15,468</b>	<b>15,376</b>	0.6
<b>Reported EPS</b>	<b>19.5</b>	<b>(47.5)</b>	<b>59.3</b>	<b>5.2</b>	<b>25.9</b>	33.0	398.9	<b>42.79</b>	<b>42.53</b>	0.6

Margins (%)						(bps)	(bps)			(bps)
EBIDTA	3.1	(4.1)	7.0	2.0	3.7	62.5	163.5	2.3	2.0	29.1
EBIT	2.2	(5.3)	5.9	1.0	2.6	41.2	157.8	1.2	1.0	21.5
EBT	3.2	(5.0)	6.6	1.1	3.0	(17.6)	191.0	1.6	1.9	-34.2
PAT	1.9	(5.0)	6.0	0.5	2.1	19.4	155.5	1.0	1.3	-23.7
Effective Tax rate	41.8	-	8.5	54.8	32.0	(976.2)	(2,272.8)	35.9	35.0	87.9

### Revised Estimates

We have revised our FY12E revenue upwards by 3.6% to reflect higher crude oil prices. However earnings decline by 9.2% because of the continued pressure of higher under recovery for the year. Consequently, revised EPS stands at Rs. 47.2 as against Rs.52. We have also introduced our FY13E estimates and expects company to report an EPS of Rs.49.9, +5.7% YoY.

Rs. bn	FY12E			FY13E	
	Old	New	% Change	Introducing Estimates	% Change YoY
Net Sales	1484.7	1538.2	3.6	1540.3	0.1
EBIDTA	48.0	45.6	-5.0	45.8	0.3
EBIDTA %	3.2	3.0	-26.9	3.0	0.6
PAT	19.6	17.1	-13.2	18.1	5.9
EPS	52.0	47.2	-9.2	49.9	5.7

### Valuations

Government has forced upstream companies to share higher subsidy burden resulting in higher profitability for OMC's during the quarter. But there is the still uncertainty hovering on subsidy sharing mechanism for FY12E under recovery, which remains the key overhang on the stock. However at CMP of Rs.627 valuation looks reasonable at 1.2 FY13E P/BV. We have rolled over our valuations to FY13E with target price of Rs.684 (1.3x P/BV), maintains ACCUMULATE rating on the stock.

## Consolidated Financials

## Income Statement

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
<b>Net Sales</b>	<b>1,238,167</b>	<b>1,537,251</b>	<b>1,538,281</b>	<b>1,540,307</b>
Growth (%)	(9.3)	24.2	0.1	0.1
<b>Expenditure</b>				
Materials Consumed	1,099,836	1,393,972	1,381,921	1,384,415
Employee Cost	22,522	29,439	33,073	36,197
Other Exp	85,271	70,426	77,683	73,935
<b>EBITDA</b>	<b>30,539</b>	<b>43,414</b>	<b>45,604</b>	<b>45,759</b>
Growth (%)	(8.5)	42.2	5.0	0.3
<b>EBITDA margin (%)</b>	<b>2.5</b>	<b>2.8</b>	<b>3.0</b>	<b>3.0</b>
Depreciation	14,446	18,914	20,238	20,512
<b>EBIT</b>	<b>39,745</b>	<b>40,951</b>	<b>40,878</b>	<b>41,952</b>
<b>EBIT margin (%)</b>	<b>3.2%</b>	<b>2.7%</b>	<b>2.9%</b>	<b>2.9%</b>
Other Income	23,652	16,451	15,512	16,705
Interest expenses	11,247	12,468	12,838	12,342
<b>PBT</b>	<b>27,722</b>	<b>28,483</b>	<b>28,310</b>	<b>29,880</b>
<b>Tax</b>	<b>10,522</b>	<b>11,062</b>	<b>10,192</b>	<b>10,757</b>
Effective tax rate (%)	38.0%	38.8%	36.0%	36.0%
<b>Adjusted PAT</b>	<b>17,200</b>	<b>17,421</b>	<b>18,118</b>	<b>19,123</b>
Growth (%)	140.3	1.3	4.0	5.5
<b>Net Margin (%)</b>	<b>1.4%</b>	<b>1.1%</b>	<b>1.3%</b>	<b>1.3%</b>
(Profit)/loss from JVs/Ass/MI	876.2	1,071.0	1,071.0	1,071.0
<b>Adj. PAT After JVs/Ass/MI</b>	<b>16,324</b>	<b>16,350</b>	<b>17,047</b>	<b>18,052</b>
E/O items	-	-	-	-
<b>Reported PAT</b>	<b>17,200</b>	<b>17,421</b>	<b>18,118</b>	<b>19,123</b>
<b>PAT after MI</b>	<b>16,324</b>	<b>16,350</b>	<b>17,047</b>	<b>18,052</b>
Growth (%)	157.6	0.2	4.3	5.9

## Cash Flow

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
<b>PBT (Ex-Other income)</b>	<b>28,499</b>	<b>28,483</b>	<b>28,310</b>	<b>29,880</b>
Depreciation	14,446	18,914	20,238	20,512
Interest Provided	11,247	12,468	12,838	12,342
Other Non-Cash items	-	-	-	-
Chg in working cap	(42,307)	4,380	(6,545)	1,592
Tax paid	10,469	11,062	10,192	10,757
<b>Operating Cashflow</b>	<b>-2,243</b>	<b>53,183</b>	<b>44,649</b>	<b>53,570</b>
Capital expenditure	(51,770)	(29,720)	(26,220)	(24,220)
<b>Free Cash Flow</b>	<b>-54,012</b>	<b>23,463</b>	<b>18,429</b>	<b>29,350</b>
Other income	-	-	-	-
Investments	(37,850)	-	-	-
<b>Investing Cashflow</b>	<b>-7,801</b>	<b>-29,720</b>	<b>-26,220</b>	<b>-24,220</b>
Equity Capital Raised	2350	0	0	0
Loans Taken / (Repaid)	(3,371)	(3,890)	(1,029)	(10,124)
Interest Paid	(13,722)	(12,468)	(12,838)	(12,342)
Dividend paid (incl tax)	(3,506)	(5,922)	(5,922)	(5,922)
Income from investments	-	-	-	-
Others	-	-	-	-
<b>Financing Cashflow</b>	<b>11,596</b>	<b>-22,280</b>	<b>-19,789</b>	<b>-28,386</b>
<b>Net chg in cash</b>	<b>1,552</b>	<b>1,182</b>	<b>-1,360</b>	<b>964</b>
Opening cash position	5,732	7,284	8,466	7,106
<b>Closing cash position</b>	<b>7,284</b>	<b>8,466</b>	<b>7,106</b>	<b>8,070</b>

## Balance Sheet

Y/E, Mar (Rs. mn)	FY10	FY11E	FY12E	FY13E
Equity share capital	3,615	3,615	3,615	3,615
Reserves & surplus	137,814	153,303	169,490	186,682
<b>Net worth</b>	<b>141,429</b>	<b>156,919</b>	<b>173,105</b>	<b>190,297</b>
<b>Minority Interest</b>	<b>2,821</b>	<b>2,821</b>	<b>2,821</b>	<b>2,821</b>
Secured Loans	135,147	150,147	160,647	170,647
Unsecured Loans	131,774	112,884	101,355	81,231
<b>Loan Funds</b>	<b>266,921</b>	<b>263,031</b>	<b>262,002</b>	<b>251,878</b>
Net deferred tax lia.	11,477	11,477	11,477	11,477
<b>Total Liabilities</b>	<b>429,223</b>	<b>440,822</b>	<b>455,980</b>	<b>463,048</b>
Gross Block	302,023	309,243	313,463	317,683
Less: Depreciation	134,524	149,709	170,470	191,520
<b>Net block</b>	<b>167,499</b>	<b>159,534</b>	<b>142,993</b>	<b>126,163</b>
Cap. work in progress	<b>78,127</b>	<b>100,627</b>	<b>122,627</b>	<b>142,627</b>
<b>Investment</b>	<b>119,323</b>	<b>119,323</b>	<b>119,323</b>	<b>119,323</b>
<b>Current Assets</b>				
Inventories	141,092	109,804	109,877	110,022
Sundry debtors	26,009	21,961	21,975	22,004
Cash & bank balance	7,284	8,466	7,106	8,070
Loans & advances	36,468	35,799	37,930	37,980
Other current assets	38,012	40,454	46,615	46,676
<b>Current lia &amp; Prov</b>				
Current liabilities	160,917	139,803	141,648	143,508
Provisions	27,652	19,582	19,572	19,590
<b>Net current assets</b>	<b>60,297</b>	<b>57,099</b>	<b>62,284</b>	<b>61,655</b>
Misc. exp	-	-	-	-
<b>Total Assets</b>	<b>429,223</b>	<b>440,822</b>	<b>455,980</b>	<b>463,048</b>

## Key ratios

Y/E, Mar	FY10	FY11	FY12E	FY13E
<b>Profitability (%)</b>				
EBITDA Margin	2.5	2.8	3.0	3.0
Net Margin	1.4	1.1	1.3	1.3
ROCE	9.6	9.4	9.1	9.1
ROE	11.9	11.0	10.3	9.9
RolC	20.6	18.7	19.5	21.0
<b>Per Share Data (Rs)</b>				
EPS	45.2	45.2	47.2	49.9
CEPS	85.1	97.5	103.1	106.7
BVPS	391.2	434.0	478.8	526.3
DPS	8.0	14.0	14.0	14.0
<b>Valuations (x)</b>				
PER	13.9	13.9	13.3	12.6
P/CEPS	7.4	6.4	6.1	5.9
P/BV	1.6	1.4	1.3	1.2
EV / Sales	0.3	0.2	0.2	0.2
EV / EBITDA	12.0	8.3	7.9	7.7
Dividend Yield (%)	1.3	2.2	2.2	2.2
<b>Gearing Ratio (x)</b>				
Net Debt/ Equity	1.8	1.6	1.5	1.3
Net Debt/EBIDTA	8.5	5.9	5.6	5.3
Work Cap Cycle (days)	1.8	(1.9)	(2.3)	(2.7)

**Recommendation History: BPCL – BPCL IN**

Date	Reports	Reco	CMP	Target
09/02/2011	<a href="#">BPCL Q3FY11 Result Update</a>	Accumulate	584	671
11/11/2010	<a href="#">BPCL Q2FY11 Result Update</a>	Accumulate	756	805
30/07/2010	<a href="#">BPCL Q1FY11 Result Update</a>	Buy	642	675
28/05/2010	<a href="#">BPCL Q4FY10 Result Update</a>	Buy	555	675

**Recent Research Reports**

Date	Reports	Reco	CMP	Target
27/05/2011	<a href="#">GSPL Q4FY11 Result Update</a>	Buy	97	120
27/05/2011	<a href="#">HPCL Q4FY11 Result Update</a>	Buy	356	463
24/05/2011	<a href="#">GAIL Q4FY11 Result Update</a>	Accumulate	430	510
29/04/2011	<a href="#">Gujarat Gas Company Q1CY11 Result Update</a>	Buy	375	481

**Emkay Global Financial Services Ltd.**

Paragon Center, H -13 -16, 1st Floor, Pandurang Budhkar Marg, Worli, Mumbai – 400 013. Tel No. 6612 1212. Fax: 6624 2410

**DISCLAIMER:** This document is not for public distribution and has been furnished to you solely for your information and may not be reproduced or redistributed to any other person. The manner of circulation and distribution of this document may be restricted by law or regulation in certain countries, including the United States. Persons into whose possession this document may come are required to inform themselves of, and to observe, such restrictions. This material is for the personal information of the authorized recipient, and we are not soliciting any action based upon it. This report is not to be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. No person associated with Emkay Global Financial Services Ltd. is obligated to call or initiate contact with you for the purposes of elaborating or following up on the information contained in this document. The material is based upon information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied upon. Neither Emkay Global Financial Services Ltd., nor any person connected with it, accepts any liability arising from the use of this document. The recipient of this material should rely on their own investigations and take their own professional advice. Opinions expressed are our current opinions as of the date appearing on this material only. While we endeavor to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so. Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice. We and our affiliates, officers, directors, and employees world wide, including persons involved in the preparation or issuance of this material may; (a) from time to time, have long or short positions in, and buy or sell the securities thereof, of company (ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company (ies) discussed herein or may perform or seek to perform investment banking services for such company(ies) or act as advisor or lender / borrower to such company(ies) or have other potential conflict of interest with respect to any recommendation and related information and opinions. The same persons may have acted upon the information contained here. No part of this material may be duplicated in any form and/or redistributed without Emkay Global Financial Services Ltd.'s prior written consent. No part of this document may be distributed in Canada or used by private customers in the United Kingdom. In so far as this report includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.