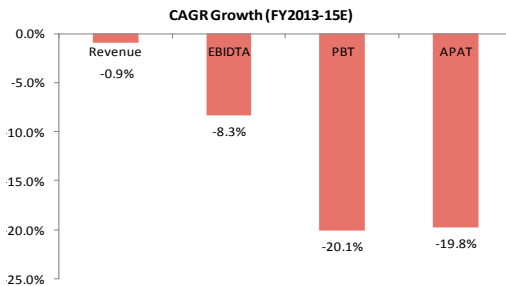


November 18, 2013

Oil & Gas Sector Outlook - Neutral



Stock Recommendation	Outperform
CMP (₹)	345
Price Target (₹)	400
Upside (%)	16
52 Week H / L ₹	449/256
BSE 30	20399

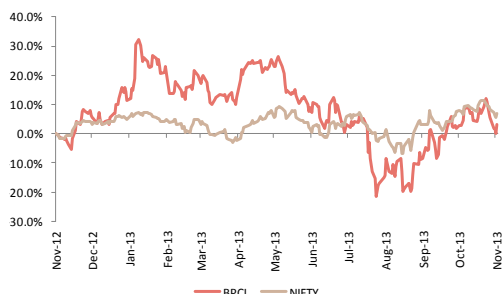
Key Data

No. of Shares, Mn.	723
Mcap, ₹ Bn	249.5
Mcap, USD Bn @ ₹60	4.2
2 W Avg Qty (BSE+NSE) Mn	1.3

Share holding, Sept'13

Promoters	54.9
FII	9.5
DII	17.6
Public & Others	18.0

Performance	1 M	3 M	6 M	12 M
Stock Return %	0.4	13.0	-16.0	3.3
Relative Return %	1.3	7.5	-17.0	-3.6



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BPCL once again demonstrated superior performance among OMCs with over 5-folds jump in QoQ bottom-line at ₹9.3bn even after absorbing ₹2.2bn under-recoveries. GRMs improved sequentially from US\$4.1/bbl in Q1FY14 to US\$4.7/bbl in Q2FY14. Crude throughput jumped by 7.3% QoQ at 6.0mmt while market sales were muted and declined by 9.3% QoQ at 7.8mmt. Gross under-recoveries for the quarter stood at ₹88.0bn of which the company received ₹41.9bn as upstream support, higher cash compensation from the government at ₹44.0bn and hence absorbed relatively lower losses at ₹2.2bn. Yet due to its superior operations management the company was able to post higher profits. Standalone borrowings also declined from ₹201.8bn by end Q1FY14 to ₹170.7bn by end Q2FY14 thus reducing the interest outgo. Management indicated that reserve certification for Mozambique is expected by end-2013/ Q1CY14 while Brazil would take longer time by end-2014/ Q1CY15. Bina refinery also posted good results with a meager loss of ₹230mn. We believe Mozambique reserve certification to be the near term catalyst for the stock. We continue to like BPCL and maintain 'Outperform' with a revised price target of ₹400 (earlier ₹387).

Good GRMs: BPCL's Q2FY14 revenues surged 8.6% YoY and 5.2% QoQ at ₹617.8bn on account of higher crude and thus products prices, rupee depreciation and higher cash compensation from the government. GRMs too expanded QoQ US\$4.7/bbl vs US\$4.1/bbl in Q1FY14.

Throughput jumps but market sales decline QoQ: Crude throughput jumped by 1.7% YoY and 7.3% QoQ at 6.0mmt. However, market sales remained flattish YoY but declined 9.3% QoQ at 7.8mmt. The company reported inventory gains on products of ₹8.6bn however it reported forex losses on crude and borrowings at ₹4.9bn.

Impressive bottom-line despite absorbing losses of ₹2.2bn: Total under-recoveries for Q2FY14 stood ₹88.0bn of which the company absorbed losses of ₹2.2bn while the rest was compensated by the upstream and the government. BPCL reported over 5-fold jump in PAT at ₹9.3bn due to its superior operating efficiencies.

Mozambique reserve certification is the near term catalyst: Management indicated that reserve certification for Mozambique is expected to happen by end-2013/ Q1CY14 while Brazil would take longer time by end-2014/ Q1CY15. We believe Mozambique reserve certification would be the near term catalyst for BPCL as it would reinforce the valuation to be ascribed for the prolific Mozambique block. Brazil reserve certification is a medium term catalyst. Successively for past two quarters, BPCL has reported profits despite absorbing losses of over ₹7.6bn which signifies its superior operating abilities. With timely repayment of debt even the interest outgo has been contained thus benefitting bottom-line. BPCL has invested over ₹55.0bn in its Mozambique and Brazil assets the returns from which would start accruing over the next few years. We have valued BPCL using SOTP with core refining and marketing business being valued using slightly higher multiple of 1.0x P/ BV considering its better operating efficiencies (earlier 0.9x) and E&P value based on the expected recoverable reserves. We continue to like BPCL and maintain 'Outperform' with a revised price target of ₹400 (earlier ₹387).

Financials	Revenues ₹mn	EBIDTA ₹mn	APAT ₹mn	EPS ₹	P/E x	EV/EBIDTA x	ROAE %
FY11	1,516	35.5	15.5	21.4	16.1	7.4	11.4
FY12	2,120	38.7	13.1	18.1	19.0	6.8	9.1
FY13	2,401	61.1	26.4	36.6	9.4	6.4	16.8
FY14E	2,320	59.4	23.9	33.1	10.4	6.8	13.7
FY15E	2,356	51.3	17.0	23.5	14.7	8.4	9.1

Source: Company, Sunidhi Research



Quarterly snapshot

(₹ mn)	Q1FY12	Q2FY12	Q3FY12	Q4FY12	Q1FY13	Q2FY13	Q3FY13	Q4FY13	Q1FY14	Q2FY14	YoY (%)	QoQ (%)
Revenues	461,449	423,019	588,468	646,689	545,484	568,879	623,687	663,107	587,364	617,845	8.6	5.2
<i>Growth in rev. (%)</i>	1.9	(8.3)	39.1	9.9	(15.6)	4.3	9.6	6.3	(11.4)	5.2	0.0	0.0
Raw Materials Cons.	186,127	198,637	226,295	238,554	250,944	232,642	244,533	232,058	231,148	270,300	16.2	16.9
<i>% of net sales</i>	40.3	47.0	38.5	36.9	46.0	40.9	39.2	35.0	39.4	43.7	0.0	0.0
Purchase of products	276,334	219,959	288,574	336,725	333,763	267,296	327,845	329,291	306,526	291,866	9.2	(4.8)
<i>% of net sales</i>	59.9	52.0	49.0	52.1	61.2	47.0	52.6	49.7	52.2	47.2	0.0	0.0
Employee Costs	6,489	4,381	4,892	7,040	5,832	7,345	5,952	8,560	8,314	6,681	(9.0)	(19.6)
<i>% of net sales</i>	1.4	1.0	0.8	1.1	1.1	1.3	1.0	1.3	1.4	1.1	0.0	0.0
Others	14,015	26,990	31,610	13,532	36,445	7,715	22,484	27,384	32,010	31,922	313.7	(0.3)
<i>% of net sales</i>	3.0	6.4	5.4	2.1	6.7	1.4	3.6	4.1	5.4	5.2	0.0	0.0
EBITDA	(21,516)	(26,948)	37,097	50,838	(81,500)	53,880	22,873	65,814	9,366	17,077	(68.3)	82.3
<i>Q-o-Q growth (%)</i>	(110.7)	25.2	(237.7)	37.0	(260.3)	(166.1)	(57.5)	187.7	(85.8)	82.3	0.0	0.0
<i>EBITDA Margin (%)</i>	(4.7)	(6.4)	6.3	7.9	(14.9)	9.5	3.7	9.9	1.6	2.8	0.0	0.0
Dep. and amort.	4,901	4,600	4,667	4,681	4,801	3,983	4,657	5,820	5,305	5,382	35.1	1.5
EBIT	(26,417)	(31,548)	32,430	46,158	(86,301)	49,897	18,216	59,994	4,061	11,695	(76.6)	188.0
Interest expenses	3,349	4,532	5,174	4,941	5,205	4,117	5,758	3,172	5,253	3,244	(21.2)	(38.2)
Other Income	4,147	3,787	4,166	4,115	3,138	4,568	4,018	5,079	3,383	4,568	0.0	35.0
EBT	(25,619)	(32,293)	31,422	45,331	(88,368)	50,348	16,476	61,901	2,191	13,020	(74.1)	494.3
Provision for tax	0	0	26	5,703	0	0	0	13,928	688	3,708	-	439.2
<i>Effective tax rate (%)</i>	0.0	0.0	0.1	12.6	0.0	0.0	0.0	22.5	31.4	28.5	0.0	0.0
Net Profit	(25,619)	(32,293)	31,396	39,628	(88,368)	50,348	16,476	47,973	1,503	9,311	(81.5)	519.4
<i>Q-o-Q growth (%)</i>	-	26.1	-	26.2	-	-	(67.3)	191.2	(96.9)	519.4	0.0	0.0
<i>Adj. PAT Margin (%)</i>	(5.6)	(7.6)	5.3	6.1	(16.2)	8.9	2.6	7.2	0.3	1.5	0.0	0.0

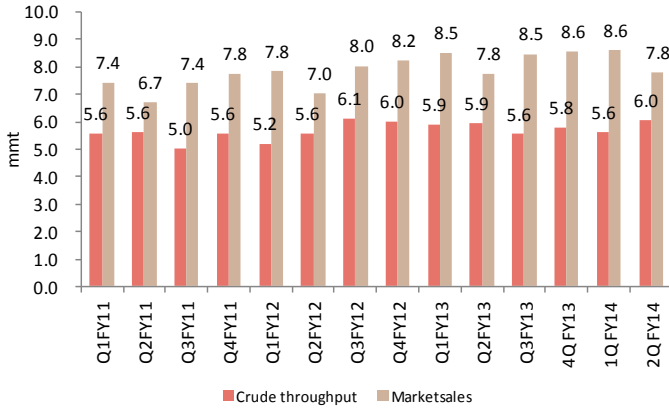
Operating Metrics	Q1FY12	Q2FY12	Q3FY12	Q4FY12	Q1FY13	Q2FY13	Q3FY13	Q4FY13	Q1FY14	Q2FY14	YoY (%)	QoQ (%)
GRMs (US\$/bbl)	2.2	0.7	2.7	3.3	2.6	6.4	4.8	6.0	4.1	4.7	(27.8)	14.8
Throughput (mmt)	5.2	5.6	6.1	6.0	5.9	5.9	5.6	5.8	5.6	6.0	1.7	7.3
Market Sales (mmt)	7.8	7.0	8.0	8.2	8.5	7.8	8.5	8.6	8.6	7.8	0.3	(9.3)

Total under-recov.(₹ mn)	102,895	48,690	76,297	98,509	116,268	90,263	93,724	89,650	61,279	88,030	(2.5)	43.7
Govt. compensation	35,245	0	69,937	91,532	0	72,394	59,873	86,700	19,166	44,014	(39.2)	129.6
Upstream support	34,091	16,418	35,727	43,337	36,626	36,177	36,018	59,624	36,664	41,866	15.7	14.2
Absorption	33,560	32,272	(29,367)	(36,360)	79,642	(18,308)	(2,167)	(56,674)	5,450	2,150	-	(60.5)

Source: Company, Sunidhi Research

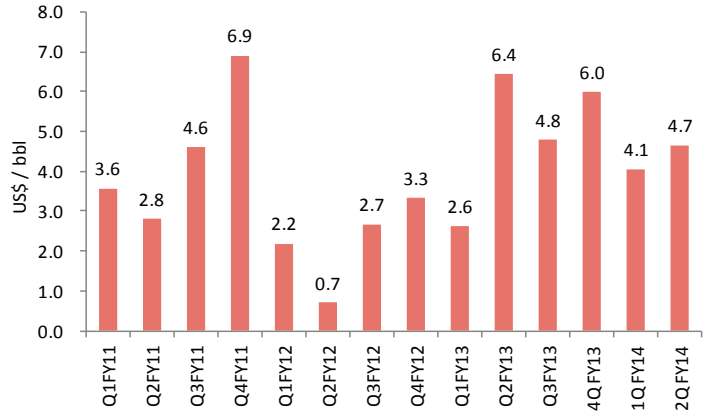


Crude Throughput & Market sales



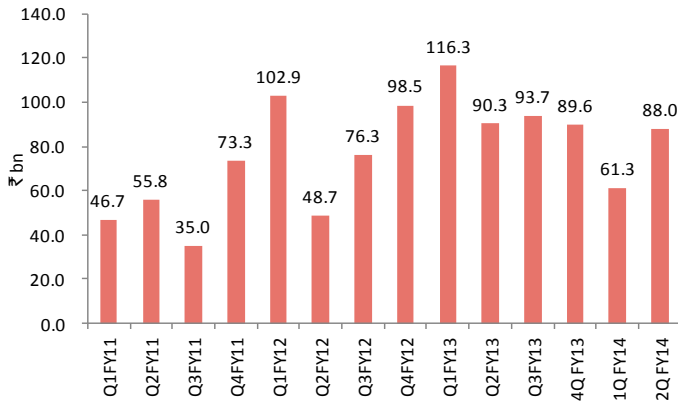
Source: Company, Sunidhi Research

GRMs Performance



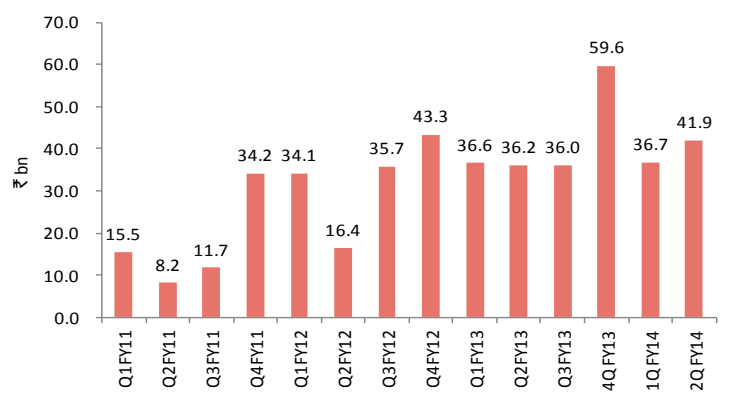
Source: Company, Sunidhi Research

Total under-recoveries



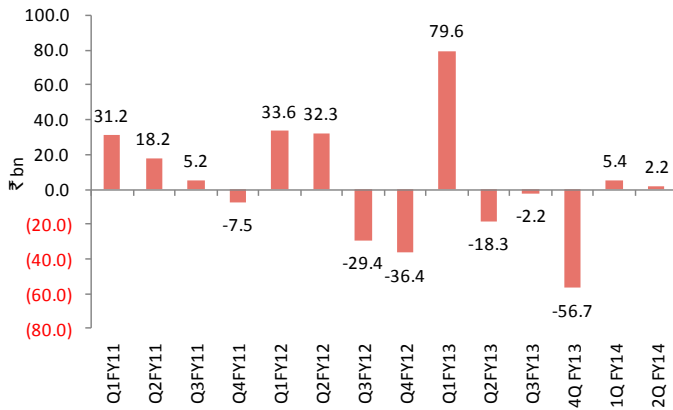
Source: Company, Sunidhi Research

Upstream Sharing



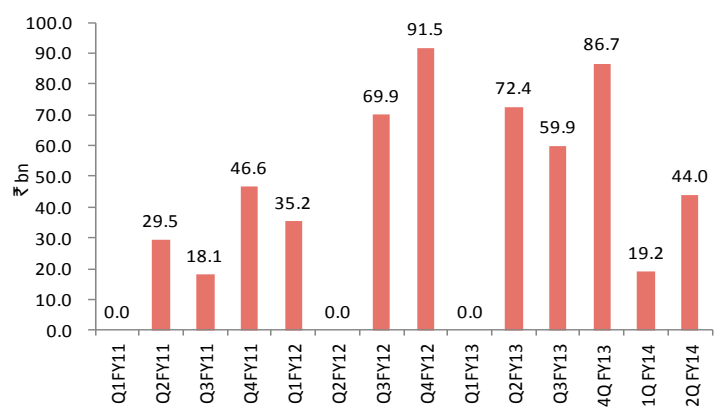
Source: Company, Sunidhi Research

Under-recoveries Absorption



Source: Company, Sunidhi Research

Government Compensation



Source: Company, Sunidhi Research

**Change in estimates**

We have changed our under-recoveries assumptions for FY14E and FY15E based on currency resets to ₹59.5/US\$ and ₹60.0/US\$. Under-recoveries absorption has also been raised for FY15E. We have also raised our GRMs assumptions for FY15E to US\$5.2/bbl from US\$5.0/bbl earlier. Despite higher absorption our FY15E earnings have been raised by 10.6% due to better operational efficiencies and higher GRMs.

	FY14E			FY15E		
	Previous	Revised	% Chg.	Previous	Revised	% Chg.
Revenue(₹bn)	2,268.5	2,319.5	2.3	2,292.4	2,356.1	2.8
EBITDA(₹bn)	61.7	59.4	(3.7)	50.4	51.3	1.8
PAT(₹bn)	24.1	23.9	(0.9)	15.4	17.0	10.6
Operating metrics						
GRMs (US\$/bbl)	4.5	4.5	-	5.0	5.2	4.0
Throughput (mmt)	24.5	24.5	-	24.5	24.5	-
Total Under-recovery (₹bn)	326.0	435.1	33.5	233.4	355.6	52.3
Upstream support (₹bn)	146.7	213.2	45.3	144.7	220.5	52.3
Cash comp. from govt. (₹bn)	174.4	217.5	24.7	77.0	117.3	52.3
Absorption (₹bn)	4.9	4.4	(11.0)	11.7	17.8	52.3

Source: Company, Sunidhi Research

SOTP valuation	Assumption	FY15E BV	Total Value
Core business	1.0x P/BV	249	179,876
Investments (Petronet, IGL)	30% Disc. to mkt. price		17,972
Investments (NRL, BORL etc.)	1.0x P/BV		26,850
E&P assets			64,820
Total value			289,518
Number of shares			723
Implied Value/ share			400

Source: Company, Sunidhi Research



Valuations Summary

Year End-March	FY11	FY12	FY13	FY14E	FY15E
Per share (₹)					
EPS	21.4	18.1	36.6	33.1	23.5
CEPS	88.6	88.4	63.2	61.5	54.2
BVPS	194.4	206.3	230.0	251.4	266.7
DPS	14.0	11.0	11.0	10.0	7.0
Payout (%)	32.7	30.3	30.1	30.2	29.8
Valuation (x)					
P/E	16.1	19.0	9.4	10.4	14.7
P/BV	1.8	1.7	1.5	1.4	1.3
EV/EBITDA	7.4	6.8	6.4	6.8	8.4
Dividend Yield (%)	4.1	3.2	3.2	2.9	2.0
Return ratio (%)					
EBIDTA Margin	2.3	1.8	2.5	2.6	2.2
PAT Margin	1.0	0.6	1.1	1.0	0.7
ROAE	11.4	9.1	16.8	13.7	9.1
ROACE	5.6	5.7	10.5	9.4	7.2
Leverage Ratios (x)					
Long term D/E	0.2	0.1	0.3	0.3	0.3
Net Debt/Equity	1.1	1.4	1.3	1.0	0.9
Interest Coverage	1.7	1.1	2.3	2.2	1.9
Current ratio	1.5	1.6	1.8	1.7	1.6
Growth Ratios (%)					
Income growth	24.0	39.8	13.3	(3.4)	1.6
EBITDA growth	45.7	9.0	57.9	(2.8)	(13.6)
PAT growth	0.6	(15.2)	101.6	(9.5)	(29.0)
Turnover Ratios					
F.A Turnover x	2.7	3.2	3.6	3.3	3.4
Inventory Days	39.9	29.1	27.1	27.0	27.0
Debtors Days	6.1	11.0	6.1	10.1	10.1
Payable days	20.3	22.2	13.4	18.7	18.7
Income Statement(₹ bn)					
Year End-March	FY11	FY12	FY13	FY14E	FY15E
Revenues	1,516.4	2,119.7	2,401.2	2,319.5	2,356.1
Op. Expenses	1,480.9	2,081.1	2,340.1	2,260.2	2,304.8
EBITDA	35.5	38.7	61.1	59.4	51.3
Other Income	16.2	17.0	16.8	14.8	11.8
Depreciation	16.6	18.8	19.3	20.5	22.2
EBIT	35.1	36.8	58.6	53.6	40.9
Interest	11.2	18.0	18.3	17.4	15.2
Prov., Write offs	0.0	0.0	0.0	0.0	0.0
PBT	23.9	18.8	40.4	36.2	25.7
Tax	8.5	5.7	13.9	12.3	8.8
PAT	15.5	13.1	26.4	23.9	17.0
Minority	0.0	0.0	0.0	0.0	0.0
Prior Period Adj.	0.0	0.0	0.0	0.0	0.0
Sh. of Associates	0.0	0.0	0.0	0.0	0.0
Ex. ordinary	0.0	0.0	0.0	0.0	0.0
Adj. PAT	15.5	13.1	26.4	23.9	17.0

Source: Company, Sunidhi Research

Balance Sheet (₹ bn)

Year End-March	FY11	FY12	FY13	FY14E	FY15E
Equity and Liabilities					
Share Capital	3.6	3.6	7.2	7.2	7.2
Reserves and Surplus	137.0	145.5	159.1	174.6	185.6
Total Shareholders funds	140.6	149.1	166.3	181.8	192.9
Minority Interest	0.0	0.0	0.0	0.0	0.0
Non-Current Liability					
Long Term Borrowings	26.5	21.6	55.1	54.6	54.1
Deferred Tax Liab. (Net)	10.1	14.0	16.6	16.6	16.6
Long Term Liab./ Provisions	7.7	4.7	5.0	5.5	6.1
Current Liabilities					
Short Term Borrowings	138.1	190.9	180.6	157.8	137.8
Trade Payables	84.1	128.7	87.8	118.8	120.9
Other Current Liabilities	135.6	133.7	135.3	137.6	139.8
Short Term Provisions	16.0	13.5	23.2	22.8	16.7
Grand Total	558.8	656.1	669.9	695.3	684.7
Assets					
Non Current Assets					
Fixed Assets	169.7	177.3	191.1	205.6	213.5
Deferred Tax Assets	0.0	0.0	0.0	0.0	0.0
Non-Current Investments	49.5	49.7	69.4	59.4	49.4
Long Term Loans & Adv.	31.7	34.6	25.3	25.3	25.3
Other non-current assets	0.0	0.0	0.2	0.2	0.2
Current Assets					
Current Investments	70.9	59.5	51.6	51.6	51.6
Inventories	153.8	159.5	166.9	160.3	163.2
Trade Receivables	25.3	63.8	40.3	64.4	65.4
Cash and Cash Equivalents	3.8	9.8	23.3	25.9	13.3
Short Term Loans & Adv.	5.2	7.9	12.4	12.9	12.9
Other Current Assets	48.9	94.1	89.4	89.6	89.9
Grand Total	558.8	656.1	669.9	695.3	684.7
Cash flow Statement					
Year End-March	FY11	FY12	FY13	FY14E	FY15E
PBT	23.9	18.8	40.4	36.2	25.7
Depreciation	16.6	18.8	19.3	20.5	22.2
Interest Exp	11.2	18.0	18.3	17.4	15.2
Others	(16.2)	(17.0)	(16.8)	(14.8)	(11.8)
CF before W.cap	35.5	38.7	61.1	59.4	51.3
Inc/dec. in W.cap	39.8	(58.0)	(3.8)	15.0	(5.3)
Op CF after W.cap	75.2	(19.3)	57.3	74.4	46.0
Less Taxes	5.2	1.8	12.1	12.3	8.8
Excp. & Prior Period Adj.	0.0	0.0	0.0	0.0	0.0
Net CF From Operations	70.0	(21.1)	45.2	62.0	37.3
Inc/(dec.) in F.A + CWIP	(61.9)	(29.9)	(20.4)	(35.1)	(30.1)
others	101.8	16.8	(2.9)	24.8	21.8
CF from Invst. Activities	39.9	(13.2)	(23.3)	(10.3)	(8.3)
Loan Raised/(repaid)	(57.4)	47.9	23.2	(23.3)	(20.5)
Equity Raised	0.0	0.0	0.0	0.0	0.0
Dividend	(5.8)	(4.5)	(9.2)	(8.5)	(5.9)
Others	(46.4)	(3.1)	(22.4)	(17.4)	(15.2)
CF from Fin Activities	(109.5)	40.2	(8.4)	(49.1)	(41.6)
Net inc /(dec.) in cash	0.4	6.0	13.5	2.6	(12.6)
Op. bal of cash	3.4	3.8	9.8	23.3	25.9
Cl. balance of cash	3.8	9.8	23.3	25.9	13.3



Sunidhi's Rating Rationale

The price target for a **large cap stock** represents the value the analyst expects the stock to reach over next 12 months. For a stock to be classified as **Outperform**, the expected return must exceed the local risk free return by at least 5% over the next 12 months. For a stock to be classified as **Underperform**, the stock return must be below the local risk free return by at least 5% over the next 12 months. Stocks between these bands are classified as **Neutral**.

(For Mid & Small cap stocks from 12 months perspective)

BUY	Absolute Return >20%
ACCUMULATE	Absolute Return Between 10-20%
HOLD	Absolute Return Between 0-10%
REDUCE	Absolute Return 0 To Negative 10%
SELL	Absolute Return > Negative 10%

Apart from Absolute returns our rating for a stock would also include subjective factors like macro environment, outlook of the industry in which the company is operating, growth expectations from the company vis a vis its peers, scope for P/E re-rating/de-rating for the broader market and the company in specific.

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