

November 1, 2011

Reco	Previous Reco
Accumulate	Accumulate
<b>CMP</b>	<b>Target Price</b>
Rs. 623	Rs. 684
EPS change FY12E/13E (%)	NA
Target Price change (%)	NA
Nifty	5,327
Sensex	17,705

**Price Performance**

(%)	1M	3M	6M	12M
Absolute	(4)	(5)	(2)	(15)
Rel. to Nifty	(11)	(2)	5	(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	785/530
Market Cap (Rs bn/USD mn)	225/4,610
Daily Avg Volume (No of sh)	423184
Daily Avg Turnover (US\$mn)	5.8

**Shareholding Pattern (%)**

	Sep-11	Jun-11	Mar-11
Promoters	54.9	54.9	54.9
FII/NRI	7.5	6.8	7.0
Institutions	19.5	20.2	20.0
Private Corp	4.8	4.5	4.2
Public	13.3	13.6	13.9

Source: Capitaline

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- **BPCL reported results which were below our estimates with EBIDTA loss at Rs26.9bn and Net loss at Rs.32.2bn, revenue grew by 19.4% YoY to Rs.423bn**
- **Direct market sales grew by 6.7% YoY to 7mmt, while crude throughput declined marginally by 0.4% YoY to 5.6mmt**
- **Average gross refining margin for Q2 FY12 was at \$1.6/bbl as compared to \$2.8/bbl, declined by 41% YoY and 45% sequentially**
- **Valuation looks reasonable at 1.2x FY13E P/BV, maintain Accumulate rating on the stock with target price of Rs. 684**

**Highlights of the results**

BPCL reported results which were below our estimates at EBIDTA and PAT Level, primarily due to cash compensation received from the government during the quarter. Revenue for the quarter was at Rs.423bn, growth of 19.4% YoY, mainly on account of higher volumes plus better realisation. EBIDTA loss during the quarter was at Rs.26.4bn, as against EBIDTA profit of Rs.24.8bn YoY. Company has reported forex loss of Rs.8bn during the quarter. Interest cost increased by 63% to Rs.4.5bn. During the quarter the company reported net loss of Rs.32.9bn, against net profit of Rs.21.4bn YoY. Net loss was mainly attributable to higher under recovery lead by higher crude oil prices, forex loss and increase in interest outgo.

Direct market sales grew by 6.7% to 7mmt mainly due to higher sales of MS, HSD, ATF and LPG. While crude throughput declined marginally by 0.4% YoY to 5.6mmt.

The company received upstream discount of Rs.16.5bn, in respect of crude Oil/LPG/SKO purchased from them has been accounted during the quarter. The company has not received budgetary support from the GOI for the under-recovery of cooking fuel and auto fuel during the quarter.

**Clarity on subsidy sharing mechanism is not yet cleared for FY12E**

The gross under recovery for the quarter stood at Rs.49.5bn. For 1H FY12, company received upstream discount of Rs.50.5bn, 33.3% of the total share/under recovery. However, there is still uncertainty hovering on subsidy sharing mechanism for 2H FY12E under recovery, which remains a key overhang on the stock.

**Interest cost increased by 63% YoY to Rs.4.5bn**

During the quarter, interest costs have increased significantly by 63% to Rs.4.5bn in tandem with increase in borrowings during the quarter. Loan fund grew by 30.6% YTD to Rs.247bn.

**GRM was at \$1.6 per bbl as against \$3 per bbl on QoQ**

During the quarter product spreads declined especially in light and mid distillate segment resulting in lower gross refining margin for the quarter. GRM was at \$1.6/bbl as compared to \$3/bbl declined by 45.4% QoQ and 41.4% YoY. We expect GRM's to remain at same level in the coming quarters.

**Financial Snapshot**

(Rs.mn)

YE-	Net	EBITDA	EPS	EPS	RoE	EV/				
Mar	Sales	(Core)	(%)	APAT	(Rs)	% chg	(%)	P/E	EBITDA	P/BV
FY10	1238167	30539	2.5	16324	45.2	157.6	11.9	13.9	12.0	1.6
FY11	1537251	43414	2.8	16350	45.1	0.2	11.0	13.9	8.3	1.4
FY12E	1677455	45302	2.7	16359	45.2	0.1	9.9	13.9	7.9	1.3
FY13E	1678176	42918	2.6	16504	45.6	0.9	9.1	13.7	8.0	1.2

## Financial Snapshot

Rs mn	Q2 FY11	Q3 FY11	Q4 FY11	Q1FY12	Q2FY12	YoY (%)	QoQ (%)	1H FY12	1H FY11	YoY (%)
<b>Revenue</b>	<b>354,348</b>	<b>366,859</b>	<b>452,720</b>	<b>461,396</b>	<b>423,019</b>	19.4	(8.3)	<b>884,415</b>	<b>696,673</b>	26.9
<b>Expenditure</b>	<b>329,483</b>	<b>359,370</b>	<b>436,074</b>	<b>483,038</b>	<b>449,967</b>	36.6	(6.8)	<b>933,005</b>	<b>685,867</b>	36.0
<i>as % of sales</i>	93.0	98.0	96.3	104.7	106.4			105.5	98.4	
Consumption of RM	301,556	334,242	404,321	462,461	418,596	38.8	(9.5)	<b>881,058</b>	<b>631,843</b>	39.4
<i>as % of sales</i>	85.1	91.1	89.3	100.2	99.0			99.6	90.7	
Employee Cost	4,526	5,696	12,394	6,574	4,381	(3.2)	(33.4)	<b>10,955</b>	<b>9,939</b>	10.2
<i>as % of sales</i>	1.3	1.6	2.7	1.4	1.0			1.2	1.4	
Other expenditure	23,401	19,433	19,359	14,003	26,990	15.3	92.7	<b>40,992</b>	<b>44,085</b>	-7.0
<i>as % of sales</i>	6.6	5.3	4.3	3.0	6.4			4.6	6.3	
<b>EBITDA</b>	<b>24,865</b>	<b>7,489</b>	<b>16,645</b>	<b>-21,642</b>	<b>-26,948</b>	(208.4)	24.5	<b>-48,590</b>	<b>10,806</b>	-549.7
Depreciation	4,019	3,700	4,828	4,901	4,600	14.5	(6.1)	<b>9,501</b>	<b>8,026</b>	18.4
<b>EBIT</b>	<b>20,846</b>	<b>3,789</b>	<b>11,818</b>	<b>-26,543</b>	<b>-31,548</b>	(251.3)	18.9	<b>-58,091</b>	<b>2,780</b>	-2189.8
Other Income	5,336	3,103	5,101	4,273	3,787	(29.0)	(11.4)	<b>8,061</b>	<b>8,545</b>	-5.7
Interest	2780	2747	3157	3349	4532	63.0	35.3	<b>7,881</b>	<b>5,103</b>	54.4
<b>PBT</b>	<b>23,402</b>	<b>4,145</b>	<b>13,761</b>	<b>(25,619)</b>	<b>(32,293)</b>	(238.0)	26.1	<b>-57,912</b>	<b>6,221</b>	-1030.9
Total Tax	1,980	2,270	4,410	-	-	-	-	<b>0</b>	<b>1,980</b>	-100.0
<b>Adjusted PAT</b>	<b>21,422</b>	<b>1,875</b>	<b>9,352</b>	<b>(25,619)</b>	<b>(32,293)</b>	(250.7)	26.1	<b>-57,912</b>	<b>4,241</b>	-1465.5
(Profit)/loss from JV's/Ass/MI	-	-	-	-	-	-	-	<b>0</b>	<b>0</b>	
<b>APAT after MI</b>	<b>21,422</b>	<b>1,875</b>	<b>9,352</b>	<b>(25,619)</b>	<b>(32,293)</b>	(250.7)	26.1	<b>-57,912</b>	<b>4,241</b>	-1465.5
Extra ordinary items	-	-	-	-	-	-	-	<b>0</b>	<b>0</b>	
<b>Reported PAT</b>	<b>21,422</b>	<b>1,875</b>	<b>9,352</b>	<b>(25,619)</b>	<b>(32,293)</b>	(250.7)	26.1	<b>-57,912</b>	<b>4,241</b>	-1465.5
<b>Reported EPS</b>	<b>59.3</b>	<b>5.2</b>	<b>25.9</b>	<b>(70.9)</b>	<b>(89.3)</b>	(250.7)	26.0	<b>-160</b>	<b>12</b>	-1465.4

Margins (%)						(bps)	(bps)			(bps)
EBIDTA	7.0	2.0	3.7	(4.7)	(6.4)	(1,338.8)	(168.0)	(5.5)	1.6	-704.5
EBIT	5.9	1.0	2.6	(5.8)	(7.5)	(1,334.1)	(170.5)	(6.6)	0.4	-696.7
EBT	6.6	1.1	3.0	(5.6)	(7.6)	(1,423.8)	(208.1)	(6.5)	0.9	-744.1
PAT	6.0	0.5	2.1	(5.6)	(7.6)	(1,367.9)	(208.1)	(6.5)	0.6	-715.7
Effective Tax rate	8.5	54.8	32.0	-	-	(846.1)	-	-	31.8	-3182.7

## Valuations

Due to lower gross refining margin, forex loss and no budgetary support from the GOI, BPCL reported net loss during the quarter. There is still uncertainty hovering on subsidy sharing mechanism for FY12E under recovery, which remains the key overhang on the stock. At CMP of Rs.623 valuations look reasonable at 1.2x FY13E P/Bv. We maintain our Accumulate rating with PT of Rs.684.

## Key Financials

## Income statement

Y/E Mar (Rsmn)	FY10A	FY11E	FY12E	FY13E
<b>Net Sales</b>	<b>1,238,167</b>	<b>1,537,251</b>	<b>1,677,455</b>	<b>1,678,176</b>
Growth (%)	(9.3)	24.2	9.1	0.0
<b>Expenditure</b>				
Materials Consumed	1,099,836	1,393,972	1,510,537	1,511,912
Employee Cost	22,522	29,439	36,904	38,598
Other Exp	85,271	70,426	84,711	84,748
<b>EBITDA</b>	<b>30,539</b>	<b>43,414</b>	<b>45,302</b>	<b>42,918</b>
Growth (%)	(8.5)	42.2	4.4	(5.3)
<b>EBITDA margin (%)</b>	<b>2.5</b>	<b>2.8</b>	<b>2.7</b>	<b>2.6</b>
Depreciation	14,446	18,914	20,238	20,512
<b>EBIT</b>	<b>39,745</b>	<b>40,951</b>	<b>39,383</b>	<b>39,111</b>
<b>EBIT margin (%)</b>	<b>3.2</b>	<b>2.7</b>	<b>2.5</b>	<b>2.5</b>
Other Income	23,652	16,451	14,319	16,705
Interest expenses	11,247	12,468	12,838	12,342
<b>PBT</b>	<b>27,722</b>	<b>28,483</b>	<b>26,815</b>	<b>27,038</b>
<b>Tax</b>	<b>10,522</b>	<b>11,062</b>	<b>9,385</b>	<b>9,463</b>
Effective tax rate (%)	38.0	38.8	35.0	35.0
<b>Adjusted PAT</b>	<b>17,200</b>	<b>17,421</b>	<b>17,430</b>	<b>17,575</b>
Growth (%)	140.3	1.3	0.1	0.8
<b>Net Margin (%)</b>	<b>1.4</b>	<b>1.1</b>	<b>1.1</b>	<b>1.1</b>
(Profit)/loss from JVs/Ass/MI	876.2	1,071.0	1,071.0	1,071.0
<b>Adjusted PAT AfterJV/ MI</b>	<b>16,324</b>	<b>16,350</b>	<b>16,359</b>	<b>16,504</b>
E/O items	-	-	-	-
<b>Reported PAT</b>	<b>17,200</b>	<b>17,421</b>	<b>17,430</b>	<b>17,575</b>
<b>PAT after MI</b>	<b>16,324</b>	<b>16,350</b>	<b>16,359</b>	<b>16,504</b>
Growth (%)	157.6	0.2	0.1	0.9

## Balance Sheet

Y/E Mar (Rsmn)	FY10A	FY11E	FY12E	FY13E
Equity share capital	3,615	3,615	3,615	3,615
Reserves & surplus	137,814	153,303	169,355	185,551
<b>Net worth</b>	<b>141,429</b>	<b>156,919</b>	<b>172,970</b>	<b>189,166</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 liability	11,477	11,477	11,477	11,477
<b>Total Liabilities</b>	<b>429,223</b>	<b>440,822</b>	<b>455,844</b>	<b>461,917</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>
Capital 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	119,818	119,870
Sundry debtors	26,009	21,961	23,964	23,974
Cash & bank balance	7,284	8,466	11,665	15,285
Loans & advances	36,468	35,799	41,362	41,380
Other current assets	38,012	40,454	50,832	50,854
<b>Current lia &amp; Prov</b>				
Current liabilities	160,917	139,803	160,853	162,911
Provisions	27,652	19,582	21,385	21,419
<b>Net current assets</b>	<b>60,297</b>	<b>57,099</b>	<b>65,402</b>	<b>67,032</b>
Misc. exp	-	-	-	-
<b>Total Assets</b>	<b>429,223</b>	<b>440,822</b>	<b>455,844</b>	<b>461,917</b>

## Cash Flow

Y/E Mar (Rsmn)	FY10A	FY11E	FY12E	FY13E
<b>PBT (Ex-Other income)</b>	<b>28,499</b>	<b>28,483</b>	<b>26,815</b>	<b>27,038</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	(5,105)	1,990
Tax paid	10,469	11,062	9,385	9,463
<b>Operating Cashflow</b>	<b>-2,243</b>	<b>53,183</b>	<b>45,400</b>	<b>52,419</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>19,180</b>	<b>28,199</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)	(2,115)	(2,115)
Income from investments	-	-	-	-
Others	-	-	-	-
<b>Financing Cashflow</b>	<b>11,596</b>	<b>-22,280</b>	<b>-15,982</b>	<b>-24,579</b>
<b>Net chg in cash</b>	<b>1,552</b>	<b>1,182</b>	<b>3,198</b>	<b>3,620</b>
Opening cash position	5,732	7,284	8,466	11,665
<b>Closing cash position</b>	<b>7,284</b>	<b>8,466</b>	<b>11,665</b>	<b>15,285</b>

## Key Ratios

Y/E Mar	FY10A	FY11E	FY12E	FY13E
<b>Profitability (%)</b>				
EBITDA Margin	2.5	2.8	2.7	2.6
Net Margin	1.4	1.1	1.1	1.1
ROCE	9.6	9.4	8.8	8.5
ROE	11.9	11.0	9.9	9.1
RoIC	20.6	18.7	19.0	20.2
<b>Per Share Data (Rs)</b>				
EPS	45.2	45.2	45.2	45.6
CEPS	85.1	97.5	101.2	102.4
BVPS	391.2	434.0	478.4	523.2
DPS	8.0	14.0	5.0	5.0
<b>Valuations (x)</b>				
PER	13.9	13.9	13.9	13.7
P/CEPS	7.4	6.4	6.2	6.1
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	8.0
Dividend Yield (%)	1.3	2.2	0.8	0.8
<b>Gearing Ratio (x)</b>				
Net Debt/ Equity	1.8	1.6	1.4	1.3
Net Debt/EBIDTA	8.5	5.9	5.5	5.5
Working Cap Cycle (days)	1.8	(1.9)	(3.7)	(4.1)

**Recommendation History: BPCL – BPCL IN**

Date	Reports	Reco	CMP	Target
16/08/2011	<a href="#">BPCL Q1FY12 Result Update</a>	Accumulate	683	684
31/05/2011	<a href="#">BPCL Q4FY11 Result Update</a>	Accumulate	627	684
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

**Recent Research Reports**

Date	Reports	Reco	CMP	Target
25/10/2011	<a href="#">GAIL Q2FY12 Result Update</a>	Accumulate	423	510
25/10/2011	<a href="#">Reliance Industries Initiating Coverage</a>	Buy	846	1,119
19/10/2011	<a href="#">Indraprastha Gas Q2FY12 Result Update</a>	Accumulate	396	425
18/10/2011	<a href="#">Petronet LNG Q2FY12 Result Update</a>	Buy	161	170

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