

November 2, 2011

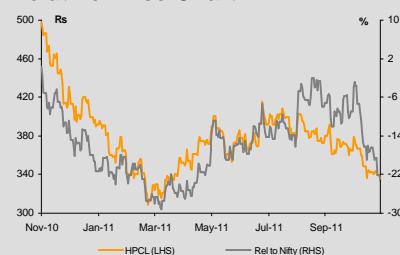
Reco	Previous Reco
Buy	Buy
CMP	Target Price
Rs. 337	Rs. 463
EPS change FY12E/13E (%)	NA
Target Price change (%)	NA
Nifty	5,258
Sensex	17,481

Price Performance

(%)	1M	3M	6M	12M
Absolute	(8)	(10)	(12)	(32)
Rel. to Nifty	(13)	(6)	(7)	(21)

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	Oil & Gas
Bloomberg	HPCL@IN
Equity Capital (Rs mn)	3386
Face Value(Rs)	10
No of shares o/s (mn)	339
52 Week H/L	505/307
Market Cap (Rs bn/USD mn)	114/2,313
Daily Avg Volume (No of sh)	870500
Daily Avg Turnover (US\$m)	6.6

Shareholding Pattern (%)

	Sep-11	Jun-11	Mar-11
Promoters	51.1	51.1	51.1
FII/NRI	9.5	9.6	8.8
Institutions	28.6	29.1	29.3
Private Corp	5.4	4.5	4.8
Public	5.4	5.7	6.0

Source: Capitaline

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- **HPCL reported results which were below our estimates with EBIDTA loss at Rs.26.8bn and Net loss at Rs.33.6bn, revenue grew by 20.2% to Rs.371bn**
- **Direct market sales grew by 15% YoY to 6.94mmt, while crude throughput increased by 37.8% YoY to 4.2mmt**
- **Average gross refining margin for Q2 FY12 was at \$1.9/bbl as compared to \$2.7/bbl, declined by 27.5% YoY, however GRM grew by 76.8% sequentially**
- **Valuations look attractive at 0.7x FY13E ABV, continue BUY rating with TP of Rs.463**

Highlights of the results

HPCL reported results which were below our estimates at EBIDTA and PAT Level, primarily due to denial of cash compensation from the government during the quarter. Revenue for the quarter was at Rs.371bn, growth of 20% YoY, mainly on account of higher volumes plus better realisation. EBIDTA loss during the quarter was at Rs.26.8bn, as against EBIDTA profit of Rs.24.8bn YoY. Company has reported forex loss of Rs.10bn during the quarter. Interest cost increased by 37.7% YoY to Rs.3bn. During the quarter the company reported net loss of Rs.33.6bn, against net profit of Rs.20.9bn 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 15% to 6.9mmt, while crude throughput increased by 37.8% to 4.2mmt YoY.

The company received upstream discount of Rs.15.6bn, 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 on 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.46.8bn. For 1H FY12, company received upstream discount of Rs.47.3bn, 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 37.7% YoY to Rs.3bn

During the quarter, interest cost has increased significantly by 37.7% to Rs.3bn in tandem with increase in borrowings during the quarter. Loan fund grew by 25% YTD to Rs312.5bn.

GRM was at \$1.9 per bbl as against \$2.7 per bbl on YoY

During the quarter company couldn't get better realisation mainly due to small correction in crude oil in mid quarter and also product spreads declined in some of the light and mid distillate segment resulting in lower gross refining margin for the quarter. GRM was at \$.1.9/bbl as compared to \$2.7/bbl declined by 27.5% 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	1158103	38146	3.4	14761	43.5	94.9	13.5	7.6	6.6	0.9
FY11	1428996	43772	3.1	17036	50.3	15.4	14.6	6.6	6.7	0.8
FY12E	1521815	41931	2.8	15515	45.8	-8.9	12.2	7.3	7.0	0.8
FY13E	1530304	43,570	2.9	16,496	48.7	6.3	11.9	6.8	6.7	0.7

Financial Snapshot

Rs Mn

Rs mn	Q2 FY11	Q3 FY11	Q4 FY11	Q1FY12	Q2FY12	YoY (%)	QoQ (%)	1H FY12	1H FY11	YoY (%)
Revenue	308702	340560	398922	409169	371042	20.2	(9.3)	780211	601717	29.7
Expenditure	283873	332758	376917	434854	399739	40.8	(8.1)	834593	592227	40.9
<i>as % of sales</i>	92.0	97.7	94.5	106.3	107.7	-	-	107.0	98.4	
Consumption of RM	264633	312146	351055	418207	366506	38.5	(12.4)	784713	560000	40.1
<i>as % of sales</i>	85.7	91.7	88.0	102.2	98.8	-	-	100.6	93.1	
Employee Cost	4406	4244	7860	5395	4512	2.4	(16.4)	9907	8068	22.8
<i>as % of sales</i>	1.4	1.2	2.0	1.3	1.2	-	-	1.3	1.3	
Other expenditure	14834	16368	18002	11251	28721	93.6	155.3	39973	24159	65.5
<i>as % of sales</i>	4.8	4.8	4.5	2.7	7.7	-	-	5.1	4.0	
EBITDA	24829	7802	22005	-25684	-28697	-215.6	11.7	-54381	9490	-673.0
Depreciation	3234	3647	4015	3886	4150	28.3	6.8	8035	6408	25.4
EBIT	21596	4156	17990	-29570	-32847	-252.1	11.1	-62417	3083	-2124.7
Other Income	2213	1449	1911	1397	2231	0.8	59.7	3628	3866	-6.2
Interest	2200	2417	2255	2641	3028	37.7	14.7	5670	4168	36.0
PBT	21610	3188	17645	-30815	-33644	-255.7	9.2	-64459	2781	-2418.2
Total Tax	712	1078	6282	0	1	-99.9	-	1	712	-99.9
Adjusted PAT	20898	2110	11363	-30815	-33645	-261.0	9.2	-64460	2069	-3215.6
(Profit)/loss from JV's/Ass/MI	-	1.0	2.0	2.0	2.0	-	-	4	0	
APAT after MI	20898	2109	11361	-30817	-33647	-261.0	9.2	-64464	2069	-3215.8
Extra ordinary items	1.7	-	136.7	(12.1)	-	-	-	-12	16	
Reported PAT	20896	2109	11225	-30805	-33647	-261.0	9.2	-64451	2053	-3239.1
Reported EPS	61.7	6.2	33.2	-91.0	-99.4	-261.0	9.2	-190	6	-3238.9

Margins (%)						(bps)	(bps)				(bps)
EBIDTA	8.0	2.3	5.5	(6.3)	(7.7)	(1,577.7)	(145.7)	(7.0)	1.6	(854.7)	
EBIT	7.0	1.2	4.5	(7.2)	(8.9)	(1,584.8)	(162.6)	(8.0)	0.5	(851.2)	
EBT	7.0	0.9	4.4	(7.5)	(9.1)	(1,606.8)	(153.6)	(8.3)	0.5	(872.4)	
PAT	6.8	0.6	2.8	(7.5)	(9.1)	(1,583.7)	(154.0)	(8.3)	0.3	(860.2)	
Effective Tax rate	3.3	33.8	35.6	0.0	0.0	(329.6)	(0.2)	0.0	25.6	(2,559.6)	

Current under recovery on petroleum products

HPCL currently lose Rs.9.27/ltr on diesel, Rs.26.94/ltr on kerosene sold through the public distribution system (PDS) and Rs.260.50/14.2 kg LPG cylinder supplied to domestic households for cooking purposes.

Valuations

Due to lower gross refining margin, forex loss and no budgetary support from the GOI, HPCL 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. However at CMP of Rs.337 valuation looks attractive at 0.7x FY13E P/BV. We maintain Buy rating on the stock with target price of Rs.463.

Key Financials

Income statement

Y/E Mar (Rsmn)	FY10	FY11	FY12E	FY13E
Net Sales	1,158,103	1,428,996	1,521,815	1,530,304
<i>Growth (%)</i>	(8.9)	23.4	6.5	0.6
Expenditure				
Materials Consumed	1,039,098	1,304,143	1,390,829	1,396,906
Employee Cost	16,428	20,646	22,641	22,838
Other Exp	64,431	60,435	66,414	66,990
EBITDA	38,146	43,772	41,931	43,570
<i>Growth (%)</i>	17	15	-4	4
EBITDA margin (%)	3.4	3.1	2.8	2.9
Depreciation	12,505	14,980	15,242	15,353
EBIT	25,641	28,792	26,689	28,217
EBIT margin (%)	2.2	2.0	1.8	1.8
Other Income	7,835	6,845	7,784	7,598
Interest expenses	9,321	9,105	11,316	11,193
PBT	24,154	26,219	23,157	24,622
Tax	9,393	9,183	7,642	8,125
<i>Effective tax rate (%)</i>	38.9	35.0	33.0	33.0
Adjusted PAT	14,761	17,036	15,515	16,496
<i>Growth (%)</i>	94.9	15.4	(8.9)	6.3
Net Margin (%)	1.3	1.2	1.1	1.2
(Profit)/loss from JVs/Ass/MI	-	-	-	-
Adjusted PAT AfterJV/ MI	14,761	17,036	15,515	16,496
E/O items	-	-	-	-
Reported PAT	14,761	17,036	15,515	16,496
PAT after MI	14,761	17,036	15,515	16,496
<i>Growth (%)</i>	94.9	15.4	(8.9)	6.3

Cash Flow

Y/E Mar (Rsmn)	FY10	FY11	FY12E	FY13E
PBT (Ex-Other income)	24,195	26,219	23,157	24,622
Depreciation	12,542	14,980	15,242	15,353
Interest Provided	9,321	9,105	11,316	11,193
Other Non-Cash items	-	-	-	-
Chg in working cap	5,203	(46,399)	(5,969)	26
Tax paid	4,917	9,183	7,642	8,125
Operating Cashflow	46,911	-12,122	28,320	35,471
Capital expenditure	(78,258)	(19,835)	(22,939)	(24,373)
Free Cash Flow	-31,347	-31,957	5,381	11,098
Other income	(7,079)	(6,845)	(7,784)	(7,598)
Investments	52,135	-	-	-
Investing Cashflow	-49,613	-19,835	-22,939	-24,373
Equity Capital Raised	-	-	-	-
Loans Taken / (Repaid)	(16,189)	35,521	4,024	(3,096)
Interest Paid	(3,998)	(9,105)	(11,316)	(11,193)
Dividend paid (incl tax)	(2,150)	(5,552)	(3,966)	(3,966)
Income from investments	-	-	-	-
Others	-	-	-	-
Financing Cashflow	-205	27,709	-3,474	-10,657
Net chg in cash	-2,907	-4,248	1,907	441
Opening cash position	9,688	6,781	2,532	4,439
Closing cash position	6,781	2,532	4,439	4,880

Balance Sheet

Y/E Mar (Rsmn)	FY10	FY11	FY12E	FY13E
Equity share capital	3,390	3,390	3,390	3,390
Reserves & surplus	117,979	129,463	141,012	153,543
Net worth	121,368	132,852	144,401	156,932
Minority Interest	25	31	35	39
Secured Loans	40,892	51,413	52,437	53,594
Unsecured Loans	202,472	227,472	230,472	226,219
Loan Funds	243,364	278,885	282,909	279,813
Net defer. tax lia.	19,123	19,123	19,123	19,123
Total Liabilities	385,268	430,891	446,469	455,907
Gross Block	267,458	274,908	282,258	289,680
Less: Depreciation	105,024	118,906	134,148	149,501
Net block	162,434	156,001	148,109	140,178
Capital WIP	89,166	101,551	117,140	134,091
Investment	96,172	96,172	96,172	96,172
Current Assets	221,859	212,002	233,061	235,484
Inventories	131,050	116,097	125,785	126,875
Sundry debtors	27,033	26,792	29,027	29,279
Cash & bank balance	8,029	2,532	4,439	4,880
Loans & advances	1,440	1,784	1,933	1,949
Other current assets	1,440	1,784	1,933	1,949
Current lia & Prov	184,372	133,614	146,796	148,805
Current liabilities	163,119	119,670	131,884	133,825
Provisions	21,253	13,943	14,912	14,979
Net current assets	37,487	78,389	86,265	86,680
Misc. exp	9.4	-	-	-
Total Assets	385,268	430,891	446,469	455,908

Key Ratios

Y/E Mar	FY10	FY11	FY12E	FY13E
Profitability (%)				
EBITDA Margin	3.4	3.1	2.8	2.9
Net Margin	1.3	1.2	1.1	1.2
ROCE	10.0	9.5	8.4	8.2
ROE	13.5	14.6	12.2	11.9
RoIC	18.7	20.1	16.3	15.6
Per Share Data (Rs)				
EPS	43.5	50.3	45.8	48.7
CEPS	80.4	94.5	90.7	94.0
BVPS	358.1	392.0	426.0	463.0
DPS	12.0	14.0	10.0	10.0
Valuations (x)				
PER	7.6	6.6	7.3	6.8
P/CEPS	4.1	3.5	3.7	3.5
P/BV	0.9	0.8	0.8	0.7
EV / Sales	0.2	0.2	0.2	0.2
EV / EBITDA	6.6	6.7	7.0	6.7
Dividend Yield (%)	3.6	4.2	3.0	3.0
Gearing Ratio (x)				
Net Debt/ Equity	1.9	2.1	1.9	1.8
Net Debt/EBIDTA	6.2	6.3	6.6	6.3
Working Cap Cycle (days)	1.2	(1.3)	5.6	5.5

Recommendation History: HPCL – HPCL IN

Date	Reports	Reco	CMP	Target
16/08/2011	HPCL Q1FY12 Result Update	Buy	384	463
27/05/2011	HPCL Q4FY11 Result Update	Buy	356	463
14/02/2011	HPCL Q3FY11 Result Update	Buy	340	444
15/11/2010	HPCL Q2FY11 Result Update	Buy	454	515

Recent Research Reports

Date	Reports	Reco	CMP	Target
01/11/2011	BPCL Q2FY12 Result Update	Accumulate	623	684
25/10/2011	Reliance Industries Initiating Coverage	Buy	846	1,119
25/10/2011	GAIL Q2FY12 Result Update	Accumulate	423	510
19/10/2011	Indraprastha Gas Q2FY12 Result Update	Accumulate	396	425

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