

BSE SENSEX	S&P CNX	CMP: INR598										Buy
17,749	5,382											
Bloomberg	BPCL IN	Year	Net Sales	Adj. PAT	Adj. EPS	EPS	P/E	P/BV	RoE	RoCE	EV/	EV/
Equity Shares (m)	361.5	End	(INR b)	(INR b)	(INR)	Gr. (%)	(X)	(X)	(%)	(%)	Sales	EBITDA
52-Week Range (INR)	713/459	03/10A	1,238	16.3	45.2	157.6	-	-	11.9	3.9	-	-
1,6,12 Rel. Perf. (%)	8/-17/1	03/11A	1,536	16.3	45.2	0.2	13.2	1.4	11.1	5.5	0.3	11.1
M.Cap. (INR b)	216.2	03/12E	2,091	15.5	42.9	-5.1	13.9	1.3	9.7	6.6	0.2	8.6
M.Cap. (USD b)	4.3	03/13E	2,031	17.6	48.7	13.6	12.3	1.2	10.3	7.1	0.2	7.8

Consolidated

- BPCL reported EBITDA of INR36.9b for 3QFY12, as against our estimate of EBITDA loss of INR3.5b. This is primarily due to (1) net over-recovery of INR29.4b v/s estimated net under-recovery of INR17.7b, led by higher government compensation, and (2) higher throughput at 6.1mmt (v/s our estimate of 5.6mmt). This was partially compensated by forex loss of INR12.7b.
- PAT for the quarter was INR31.4b v/s our estimate of INR10b loss. Comparable PAT was INR1.9b in 3QFY11 and INR32.3b loss in 2QFY12.
- Given the ad-hoc subsidy sharing, we believe quarterly financials are not indicative of the likely full-year performance. We now model OMCs' subsidy sharing at nil in FY12 (similar to FY09 v/s 2% earlier) and upstream sharing at ~40%, with the rest being borne by the government.

Net over-recovery, as government compensated for two quarters (2QFY12 and 3QFY12)

- Of the gross under-recovery of INR76.3b in 3QFY12, HPCL received INR35.7b from upstream and INR69.9b from the government. Net subsidy over-recovery was INR29.4b in 3QFY12.
- The government compensation of INR69.9b was 2x our estimate, because the compensation received is for two quarters (2QFY12 and 3QFY12) v/s our assumption for only one quarter. In 2QFY12, the government had not given any compensation. During the first three quarters of FY12, the government has given a total of INR450b to all the three OMCs (quarterly run rate of INR150b).
- Valuation and view:** We model Brent oil price of USD112/100/95/90/bbl in FY12/FY13/FY14/long-term. For FY12/13, we model upstream share at 40%/38.7% and OMCs' share at nil/9%, with the rest being borne by the government. The stock trades at 13.9x FY12E EPS of INR42.9 and 1.3x FY12E BV. Key things to watch (apart from subsidy sharing) are the start of commercial production at the Bina refinery at full utilization levels and GRM performance. BPCL is our top pick among OMCs. Maintain **Buy**.

Quarterly Performance (Standalone)

(INR Million)

Y/E March	FY11				FY12				FY11	FY12E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Net Sales	342,415	353,168	366,655	452,515	461,177	422,819	588,245	537,776	1,514,753	2,010,017
Change (%)	34.3	30.5	14.0	20.5	34.7	19.7	60.4	18.8	23.9	32.7
EBITDA	-14,265	24,679	7,284	16,441	-21,861	-27,148	36,874	52,581	34,138	40,446
Change (%)	nm	nm	17.0	45.8	53.3	nm	406.3	219.8	43.5	18.5
% of Sales	-4.2	7.0	2.0	3.6	-4.7	-6.4	6.3	9.8	2.3	2.0
Depreciation	4,007	4,019	3,700	4,828	4,901	4,600	4,667	4,829	16,554	18,997
Interest	2,324	2,780	2,747	3,157	3,349	4,532	5,174	4,950	11,008	18,005
Other Income	3,415	5,522	3,308	5,305	4,492	3,987	4,389	2,413	17,550	15,281
PBT	-17,181	23,402	4,144	13,761	-25,619	-32,293	31,422	45,214	24,126	18,725
Tax	0	1,980	2,270	4,410	0	0	26	6,194	8,660	6,220
Tax rate (%)	0.0	8.5	54.8	32.0	0.0	0.0	0.1	13.7	35.9	33.2
PAT	-17,181	21,422	1,874	9,352	-25,619	-32,293	31,396	39,021	15,467	12,505
Change (%)	nm	nm	-50.6	32.9	49.1	nm	1,575.5	317.3	0.6	-19.1
Adj. PAT	-17,181	21,422	1,874	9,352	-25,619	-32,293	31,396	39,021	15,467	12,505

E: MOSL Estimates; 3QFY11 tax includes prior period provision (from FY03) of INR1b

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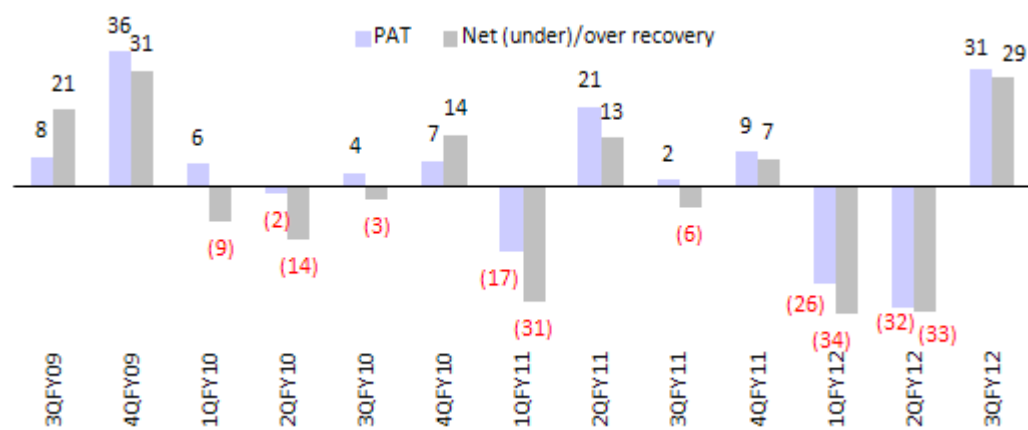
Other key highlights

- 3QFY12 GRM stood at USD3.5/bbl (v/s est of USD3.6/bbl) as against USD4.6/bbl in 3QFY11 and USD1.7/bbl in 2QFY12. Mumbai refinery GRM stood at USD2.8/bbl and Kochi refinery at USD4.35/bbl.
- Product inventory adventitious gain stood at INR3b (v/s gain of INR3.1b in 3QFY11 and loss of INR240m in 2QFY12). BPCL's GRM is lower than HPCL's reported GRM of USD4.8/bbl.
- Refinery throughput stood at 6.1mmt (v/s est 5.6mmt), up 22% YoY and 10% QoQ. Marketing volumes were up 9% YoY and 14% QoQ to 8mmt.
- Gross debt stood at INR259b as on Dec-11 v/s INR190b on March 31, 2011. Management indicated that gross debt has come down to ~INR225b after it received Government compensation. Average interest cost was at ~7.5-8%.

Concall highlights

- **Yet to receive 50% of the accounted government compensation:** Out of total accounted government compensation of INR105b in 9MFY12 (per quarter compensation of INR35b), BPCL has received a cash compensation of INR18b in Dec-2011 and INR35b in Jan-2012. Of the remaining INR52b, it expects to receive INR16b by mid-Feb 2012 and then balance would be INR35b.
- **Petrol (MS) under-recovery at ~INR2/ltr:** Currently, BPCL is losing INR2-2.5/liter on unregulated MS sales as the current prices are not mark-to-market. Company lost INR6.5b in 1QFY12 on MS sales but managed to sell on mark-to market basis in 2QFY12 and 3QFY12.
- **Bina refinery update:** In 3QFY12, Bina refinery capacity utilization stood at ~65% with GRM at USD15-16/bbl as refinery was carrying crude inventory of lower price. In 4QFY12, management expects the utilization at 80-85% with GRM's in range of USD9-10/bbl.
- **Expects FY12 capex at INR34b:** Management expects total capital expenditure of ~INR34b in FY12, out of which INR9b on upstream. Currently, CCR up-gradation at Mumbai refinery of INR18b is under progress which is expected to get complete by April 2013. Also, BPCL is working on a plan for an integrated refinery expansion project of 6mmtpa with investment of INR120b for its Kochi refinery.
- **Upstream capex at USD350m in FY13/ FY14:** Management expects to spend USD350m in both FY13 and FY14. For FY13, it expects to spend ~USD140-150m on Brazil blocks, USD100m on Mozambique blocks and USD30-40m on domestic blocks. It plans to drill 7-8 wells in Brazilian blocks and 12 wells in Mozambique.
- **LNG requirement:** Management has pegged the LNG requirement for its Kochi refinery at 0.7-1mmt.

Ad-hoc subsidy sharing resulting in volatile quarterly profits (INR b)



Source: Company/MOSL

BPCL: 3QFY12 Operational Highlights (INR b)

	FY11				FY12			3QFY12 (%)		FY11	9M FY12
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	YoY	QoQ		
Product Sales (mmt)	7.3	6.6	7.4	7.8	7.8	7.0	8.0	8.6	14.2	29.1	22.9
Throughput (mmt)											
Mumbai	3.3	3.4	2.9	3.4	3.3	3.1	3.5	18.2	10.6	13.0	9.9
Kochi	2.3	2.2	2.1	2.1	1.9	2.5	2.7	26.5	8.9	8.8	7.0
Total	5.6	5.6	5.0	5.6	5.2	5.6	6.1	21.9	9.9	21.8	16.9
Blended GRM (USD/bbl)	3.6	2.8	4.6	6.9	3.0	1.7	3.5	(24.5)	110.9	4.5	2.8

BPCL's subsidy sharing: Reports over recovery in 3QFY12 due to high govt. compensation (INR b)

	FY11				FY12			3QFY12 (%)		FY11	9M FY12
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	YoY	QoQ		
Gross Under recovery	46.3	24.6	35.3	73.4	102.9	49.8	76.3	115.9	53.3	179.6	228.9
Less: Sharing											
Upstream Sharing	15.5	8.2	11.7	34.2	34.1	16.4	35.7	205.2	117.6	69.6	86.2
Oil Bonds/Cash	0.0	29.5	18.1	46.6	35.2	0.0	69.9	286.4	nm	94.2	105.2
Net Under/(over)recovery	30.8	(13.1)	5.5	(7.4)	33.6	33.3	(29.4)	nm	nm	15.8	37.5
As a % of Gross	66.5	nm	15.6	nm	32.6	67.0	(38.5)			8.8	16.4

Source: Company/MOSL

We model OMCs' sharing at nil in FY12 and 9% in FY13 (INR b)

	FY08	FY09	FY10	FY11	FY12E	FY13E
Fx Rate (INR/USD)	40.3	46.0	47.5	45.6	47.6	50.0
Brent (USD/bbl)	82.3	84.8	69.6	86.3	112.7	100.0
Gross Under recoveries						
Auto Fuels	426	575	144	375	750	550
Domestic Fuels	347	458	316	405	566	505
Total	773	1,033	461	780	1,316	1,055
Sharing						
Oil Bonds/Cash	353	713	260	410	789	552
Upstream	257	329	145	303	526	409
OMC's sharing	163	-9	56	67	0	94
Total	773	1,033	461	780	1,316	1,055
Sharing (%)						
Government	46	69	56	53	60	52
Upstream	33	32	31	39	40	39
OMC's sharing	21	-1	12	9	0	9
Total	100	100	100	100	100	100

Source: Company/MOSL

Valuation and view

- We model Brent oil price of USD112/100/95/90/bbl in FY12/FY13/FY14/long-term in our estimates. For FY12/13, we model upstream share at 40%/38.7%, OMCs' share at nil/9% and rest to be borne by government.
- We continue to believe that over the long term, while reforms in the sector are extremely necessary, in the near-term, price hikes are inevitable. We believe that the political compulsion would ease post five state assembly elections making some room for tough decisions in the sector. While, as the headline inflation number has reduced from double digit levels to 7.4% in Dec-11 and moderating, we expect some price hikes to take place.
- E&P upside potential is BPCL's key differentiator vis-à-vis HPCL and IOC. BPCL's E&P portfolio has turned out to be a huge success with multiple discoveries in its Brazil and Mozambique acreage. We currently value BPCL's E&P portfolio at INR98/sh and believe there could be a significant upside potential as we get more clarity on the reserve size at its Mozambique and Brazil discovery.
- The stock trades at 13.9x FY12E EPS of INR42.9 and 1.3x FY12E BV. Key event to watch (apart from subsidy sharing) is the start of commercial production at Bina refinery at full utilization levels and the GRM performance. BPCL is our top pick in OMC's. Maintain **Buy**.

BPCL: an investment profile

Company description

A Fortune 500 company, BPCL has interests in oil refining and marketing of petroleum products. It is the third largest refining company in India with a capacity of 12mmtpa at its Mumbai facility and 7.5mmtpa at Kochi. BPCL has majority stake (63%) in Numaligarh Refineries, a 3mmtpa refinery in the north-east. BPCL has investments in IGL (22.5%) and Petronet LNG (12.5%). BPCL is a public sector firm in which the government of India holds 54.93%.

Key investment arguments

- BPCL's profitability continues to be determined by quantum of under recoveries and sharing mechanism, rather than fundamentals.
- Bina refinery commercial production ramp up is expected in coming quarters. BPCL has 49% stake in the ~Rs114b Bina refinery, which will have a capacity of 6mmtpa.
- BPCL's E&P portfolio is likely to add substantial value as it completes its appraisal program and gives out the resource/reserve numbers.

Key investment risks

- Delay in the diesel de-regulation and ad-hoc subsidy sharing.

- Non commensurate increase in the retail fuel prices as oil price rises, leads to under recoveries for the company and ad-hoc nature of subsidy sharing impacts the profits.

Recent developments

- The government initiated the process of decontrol of retail fuel prices, starting with petrol prices. The FPO of IOCL and ONGC could be key triggers to start the decontrol process for LPG, kerosene and diesel.

Valuation and view

- The stock trades at 13.9x FY12E EPS of INR42.9 and 1.3x FY12E BV. Maintain **Buy**.

Sector view

- Global economic environment (particularly Europe) will continue to weigh heavily on refining margins. While economic outlook continues to remain uncertain, we expect GRMs to remain range bound. However, the ceiling will be capped in the near term due to new capacities coming online in FY13 and FY14. We expect the demand-supply gap to correct only through refinery closure of simple refiners and continuous pick-up in global demand.

Target price and recommendation

Current Price (INR)	Target Price (INR)	Upside (%)	Reco.
598	-	-	Buy

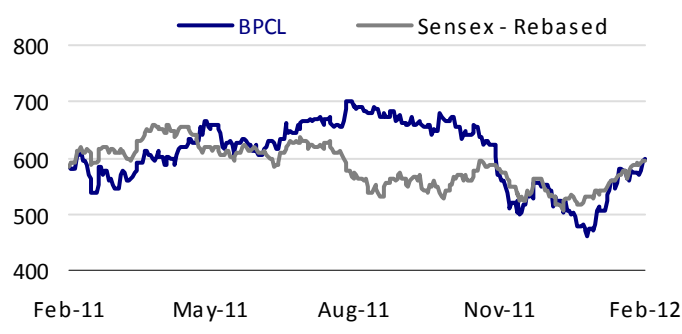
EPS: MOSL forecast v/s consensus (INR)

	MOSL Forecast	Consensus Forecast	Variation (%)
FY12	42.9	32.3	32.7
FY13	48.7	47.0	3.7

Shareholding pattern (%)

	Dec-11	Sep-11	Dec-10
Promoter	55.8	55.8	55.8
Domestic Inst	19.2	19.5	19.2
Foreign	7.3	7.5	7.7
Others	17.8	17.3	17.3

Stock performance (1 year)



Financials and Valuation

Income Statement (Consolidated)		(INR Million)		
Y/E March	2010	2011	2012E	2013E
Net Sales	1,238,167	1,536,450	2,091,031	2,031,166
Change (%)	-9.3	24.1	36.1	-2.9
Finished Gds Purchase	567,667	701,497	958,277	890,848
RM & Other exp	533,501	692,475	968,544	1,024,786
Other operating expen:	106,461	99,865	111,690	60,584
EBITDA	30,539	42,612	52,520	54,947
% of Net Sales	2.5	2.8	2.5	2.7
Depreciation	14,446	18,914	24,209	25,191
Interest	11,247	12,468	18,534	15,769
Other Income	23,652	17,252	14,718	12,813
Extraordinary Items (net)	-777	0	0	0
PBT	27,721	28,483	24,496	26,800
Tax	10,235	11,062	7,978	8,179
Rate (%)	36.9	38.8	32.6	30.5
Minority Interest	876	1,071	1,005	1,005
Exceptional Item				
PAT	16,610	16,350	15,513	17,616
Adj. PAT	16,324	16,350	15,513	17,616
Change (%)	157.6	0.2	-5.1	13.6

Balance Sheet		(INR Million)		
Y/E March	2010	2011	2012E	2013E
Share Capital	3,615	3,615	3,615	3,615
Reserves	137,814	149,893	161,176	174,140
Net Worth	141,429	153,508	164,792	177,755
Minority interest	9,396	9,975	10,979	11,984
Loans	266,921	251,855	238,113	208,406
Deferred Tax	11,477	13,074	13,295	13,525
Capital Employed	429,223	428,412	427,179	411,671
Gross Fixed Assets	302,023	344,851	366,582	396,907
Less: Depreciation	134,524	152,581	176,790	201,981
Net Fixed Assets	167,499	192,269	189,792	194,926
Capital WIP	78,217	82,864	82,864	82,864
Investments	119,323	84,600	117,336	122,336
Intangibles	3,855	3,855	3,855	3,855
Curr. Assets, L & Adv.				
Inventory	141,092	182,135	164,993	156,792
Debtors	26,009	28,779	29,444	27,415
Cash & Bank Balance	7,284	7,971	16,796	8,828
Loans & Advances	74,480	86,421	86,374	86,374
Current Liab. & Prov.				
Liabilities	160,917	206,051	231,214	235,563
Provisions	27,652	34,462	33,093	36,188
Net Current Assets	60,297	64,792	33,300	7,657
Less: Miscellaneous exp	33	33	33	33
Application of Funds	429,223	428,412	427,179	411,671

E: MOSL Estimates

Ratios		(INR Million)			
Y/E March	2010	2011	2012E	2013E	
Basic (INR)					
EPS	45.2	45.2	42.9	48.7	
Cash EPS	85.1	97.5	109.9	118.4	
Book Value	391.2	424.6	455.8	491.7	
Dividend	14.0	14.0	10.0	11.0	
Payout (incl. Div. Tax.)	21.5	39.4	27.3	26.4	
Valuation (x)					
P/E		13.2	13.9	12.3	
Cash P/E		6.1	5.4	5.1	
EV / EBITDA		11.1	8.6	7.8	
EV / Sales		0.3	0.2	0.2	
Price / Book Value		1.4	1.3	1.2	
Dividend Yield (%)		2.3	1.7	1.8	
Profitability Ratios (%)					
RoE	11.9	11.1	9.7	10.3	
RoCE	3.9	5.5	6.6	7.1	
Turnover Ratios					
Debtors (No. of Days)	6	7	5	5	
Asset Turnover (x)	4.4	4.8	5.9	5.3	
Leverage Ratio					
Debt / Equity (x)	1.9	1.6	1.4	1.2	

Cash Flow Statement		(INR Million)		
Y/E March	2010	2011	2012E	2013E
OP/(Loss) before Tax	28,499	28,632	24,496	26,800
Depreciation	14,446	18,914	24,209	25,191
Interest Paid	11,247	12,468	18,534	15,769
Direct Taxes Paid	-10,469	-12,475	-7,757	-7,949
Other operating items	-3,658	-13,028	0	0
(Inc)/Dec in Wkg. Capit	-42,307	13,489	40,317	17,675
CF from Op. Activity	-2,242	48,001	99,798	77,486
(Inc)/Dec in FA & CWIP	-51,819	-43,057	-21,731	-30,325
(Pur)/Sale of Investme	44,018	38,532	-32,737	-5,000
CF from Inv. Activity	-7,801	-4,525	-54,468	-35,325
Issue of Shares	2,350	0	0	0
Net Inc / (Dec) in Debt	28,080	4,137	-13,741	-29,707
Interest paid	-13,722	-13,967	-18,534	-15,769
Dividends Paid	-3,506	-6,449	-4,230	-4,653
Other Fi. Activities	-1,605	3,278	0	0
CF from Fin. Activity	11,596	-13,001	-36,505	-50,129
Inc / (Dec) in Cash	1,552	30,475	8,825	-7,968
Cash (incl ST borrowing)	5,732	-22,504	7,971	16,796
Closing Balance	7,284	7,971	16,796	8,828

N O T E S

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BPCL

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