

BSE SENSEX
18,145

S&P CNX
5,505

CMP: INR625

TP: INR735

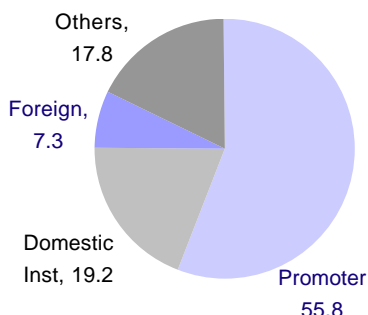
Buy



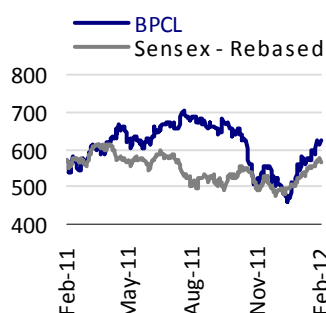
Bloomberg	BPCL IN
Equity Shares (m)	361.5
52-Week Range (INR)	713/459
1,6,12 Rel. Perf. (%)	6/-19/10
M.Cap. (INR b)	225.9
M.Cap. (USD b)	4.6

Y/E March	2011	2012E	2013E
Sales (INR b)	1,536	2,089	2,027
EBITDA (INR b)	43	52	55
NP (INR b)	16	15	18
EPS (INR)	45.2	42.5	48.5
EPS Gr. (%)	0.2	-6.1	14.1
BV/Sh. (INR)	424.6	455.4	491.0
P/E (x)	13.8	14.7	12.9
P/BV (x)	1.5	1.4	1.3
EV/EBITDA (x)	11.3	8.8	8.0
EV/Sales (x)	0.3	0.2	0.2
RoE (%)	11.1	9.7	10.2
RoCE (%)	5.5	6.6	7.1

Shareholding pattern % (Dec-11)



Stock performance (1 year)



Shell's bid for Cove Energy values BPCL's stake in Mozambique block at INR220/share

Increasing BPCL's TP to INR735/share; Maintain Buy

- BPCL's JV partner in the Mozambique block, Cove Energy plc (COV LN), has received a firm intention from Royal Dutch Shell plc (RDSA LN) to buy its 100% outstanding shares for GBP992m (USD1.6b). Cove Energy has an 8.5% stake in the Mozambique block and based on Shell's bid, the implied value of BPCL's 10% stake is ~INR220/share, more than double of our current value.
- How would Shell's entry impact BPCL? Apart from being a valuation benchmark, we believe Shell's entry would reduce the execution risk in this large project due to its technical expertise in E&P and presence in the LNG value chain. Shell is a global E&P giant with a market cap of USD230b. The market cap of Anadarko (APC LN), the current operator, is USD43b. The construction of a floating LNG facility would be critical for commercializing gas from the Mozambique block and Shell's experience at the Prelude floating LNG facility (first in the world) in Australia (FID in May 2011, likely completion in 2016) would be useful in Mozambique.

Expect first gas from Mozambique in 2018; reserves pegged at 30+tcf

- Anadarko (operator) has estimated the recoverable reserves of the Mozambique block's at 15-30tcf and in-place resources at 30-50+ tcf of natural gas. To put it in perspective, this compares with the 12tcf reserves announced by Reliance Industries (RIL) for its KG-D6 block.
- Anadarko has decided to build a two-train LNG facility to monetize this large resource base, which is expandable to six trains. The distance of the basin from the shore is only 50km and Mozambique's geographic location is also ideal as it is near to high gas demand areas of Asia. The pre-FEED activity for LNG development is nearing completion and FEED activity is expected to start soon.
- The final investment decision (FID) is expected to come by July-Aug 2013 and production is expected in 2018-19.
- BPCL's upstream capex at USD350m each in FY13/ FY14: BPCL has spent ~INR30b on its overall E&P portfolio, out of which ~INR25b was spent on Brazil and Mozambique. Over the next two years, BPCL plans 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 its Brazilian blocks and 12 wells in Mozambique.

Increasing E&P value and target price; Maintain Buy

- Shell's entry into Mozambique block reduces the execution risk and hence increases confidence of timely completion as well as recovery. We are shifting our base case valuation based on average recovery of 22.5tcf to high case of 30tcf and believe that there could be further upside to this number.
- We are revising our E&P value for BPCL from INR90/share to INR134/share resulting in a revised target price of INR735/share (v/s earlier target price of

INR690/share) based on average of P/B of 1x, EV/EBITDA of 5x and P/E of 9x FY13E. Investment value of INR307/share comprise of INR151/share from E&P, INR70/share from listed investments (post 25% discount), INR43/share from Bina refinery (post 15% discount) and INR44/share for treasury shares.

- Adjusted for E&P value, BPCL trades at 0.9x FY13E BV. The 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**.

Mozambique block - Lot more to come

- The JV partners in the Mozambique block are Anadarko (operator with 36.5% stake), Mitsui (20%), Mozambique National Oil Company (20%), BPCL (10%), Videocon (10%) and Cove Energy (8.5%).
- Anadarko has deployed 2 rigs in this acreage and has an active drilling program. As the acreage is still in the exploration and appraisal stage, we expect the recoverable reserve number to expand further.

Shell's bid for Cove Energy values BPCL's stake at INR220/share

Cove Energy	
Shell bid (GBPm)	992
Shell bid (USD b)	1.6
Mozambique share (%)	90.0
Cove Energy's stake in Mozambique (%)	8.5
Implied Mozambique value (USD b)	16.5
BPCL's stake (%)	10.0
Value to BPCL (USD b)	1.6
Value to BPCL (INR b)	79.1
Per share value to BPCL (INR)	220

Source: Cove Energy/MOSL

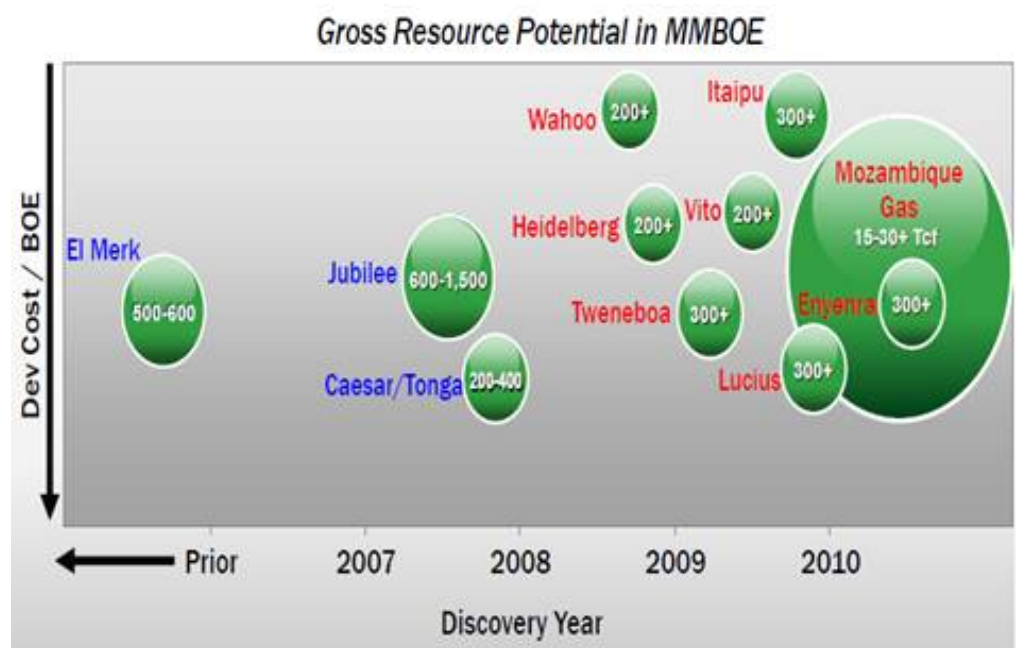
Revised base case value to INR134/share; now based on high case reserve of 30tcf

	Low	High	Average
Likely recovery (tcf)	15.0	30.0	22.5
Likely recovery (m mboe)	2,850	5,700	4,275
Valuation (USD/boe)	3.5	3.5	3.5
Value (USD b)	10.0	20.0	15.0
Value (INR b)	479	958	718
BPCL's stake (%)	10	10	10
Value to BPCL (INR b)	48	96	72
Value (INR/sh)	132	265	199
FY13E value*	67	134	101

*discounted by 6 years @12%

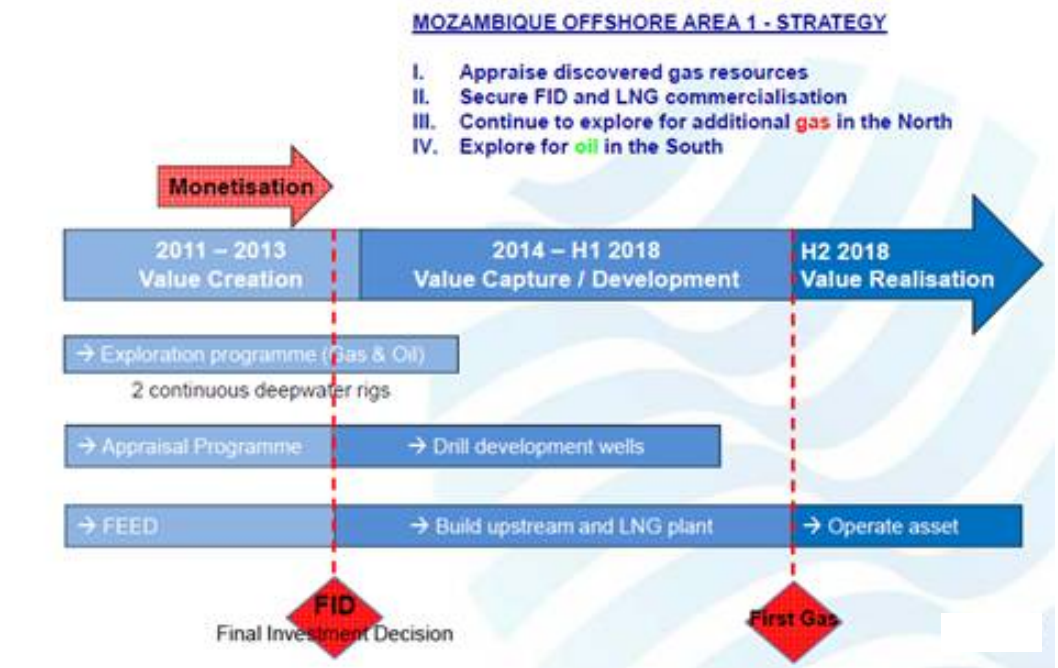
Source: MOSL

Operator Anadarko indicates Mozambique potential at 15-30tcf



Source: Anadarko/MOSL

Mozambique block's final investment decision (FID) expected in 2013; first gas in 2018



Source: Cove Energy/MOSL

Currently operating 2 rigs; expect further increase in reserves

Mozambique: Advancing a World-Class Discovery

- 15 - 30+ Tcf Estimated Recoverable Resources
- 2-Rig, Accelerated Drilling and Testing Program
- Advancing Initial 2-Train LNG Facility
- On Track for FID in 2013
- First Production Planned in 2018

Legend:

- Additional Block
- Reserve and Resource
- Successful Appraisal Well
- Well Planned/On Line
- Prospects and Leads

Source: Anadarko/MOSL

With 15+ new prospects, 2012 will be a busy schedule at Mozambique block

Mozambique: Building Upon Success

- Complete 3D Seismic Coverage
 - Data Integrated into Geologic Model
- Substantial Running Room
 - 10+ Identified Prospects and Leads
 - Similar Age and Seismic Character Traps
 - Deeper Untested Potential
 - Area Can be Developed through Expandable LNG Hub
- Active 2012 Exploration Program

Legend:

- Additional Block
- Reserve and Resource
- Successful Appraisal Well
- Well Planned/On Line
- Prospects and Leads

Source: Anadarko/MOSL

BPCL's E&P business has met with huge success

- BPCL's E&P business has turned out to be a huge success with multiple discoveries in its Brazil and Mozambique acreage.
- BPCL's E&P activity is carried through its 100% subsidiary Bharat PetroResources Ltd, which has 27 E&P blocks (9 in India and 18 abroad). BPCL has an overseas presence in Australia, Brazil, East Timor, Indonesia, Mozambique and the UK. Out of the total acreage of 81,000sqkm, ~91% is offshore.

- **BPCL's E&P strategy:** BPCL's entry into E&P business is led by the thought of being self-sufficient in sourcing crude requirement for its refineries (shielding it from vagaries of crude price at entity level). BPCL has consciously entered into countries with a very low political risk. Further, at this stage BPCL prefers to enter only into exploratory blocks and would not be entering into producing blocks.

BPCL has recorded 9 discoveries till date in Mozambique

No	Discovery	Date	Basin	Operator	BPCL Stake (%)	Oil/Gas	Pay Zone (m)
Brazil - Offshore							
1	Wahoo - 1	Oct-08	Campos	Anadarko	12.5	Oil	65
2	Wahoo-2	Nov-09	Campos	Anadarko	12.5	Oil	59
3	Barra	Oct-10	Sergipe-Alagoas	Petrobras	20.0	Oil & Gas	
Mozambique - Offshore							
4	Windjammer	Mar-10	Rovuma	Anadarko	10.0	Gas	365
5	Barquentine	Oct-10	Rovuma	Anadarko	10.0	Gas	126
6	Lagosta	Nov-10	Rovuma	Anadarko	10.0	Gas	168
7	Tubarao	Feb-11	Rovuma	Anadarko	10.0	Gas	34
8	Barquentine-2	Aug-11	Rovuma	Anadarko	10.0	Gas	70
9	Camarao	Oct-11	Rovuma	Anadarko	10.0	Gas	73
10	Barquentine-3	Nov-11	Rovuma	Anadarko	10.0	Gas	202
11	Lagosta-2	Jan-12	Rovuma	Anadarko	10.0	Gas	237
12	Lagosta - 3	Feb-12	Rovuma	Anadarko	10.0	Gas	176
Indonesia - Offshore							
13	Badik-1	Nov-10	Tarakan	Anadarko	12.5	Oil & Gas	40

Source: Company/MOSL

Brazil portfolio - Expect further upsides from Sergioe-Alagoas basin

- BPCL has announced three discoveries in its Brazil with two in the Campos basin (where Anadarko is the operator) and one in Sergipe-Alagoas basin (with Petrobras as operator).
- Out of the three discoveries, Anadarko has indicated the likely recoverable reserves of 150-200mmbbl in Wahoo discovery. Appraisal wells are planned in the Sergipe-Alagoas basin (JV partner Petrobras) and post that we expect to get some indication on the recoverable numbers in the block.
- We currently value BPCL's 12% stake in Wahoo discovery at INR17/share (200mmbbl of recoverable reserves based on USD8/boe, production start in FY17). We do not assign any value for other two blocks and would await more clarity from the operator in terms of the reserve size.

Valuation and view

We are revising our E&P value for BPCL from INR90/share to INR134/share resulting in a revised target price of INR735/share (v/s earlier target price of INR690/share) based on average of P/B of 1x, EV/EBITDA of 5x and P/E of 9x FY13E. Adjusted for E&P value, BPCL trades at 0.9x FY13E BV. BPCL is our top pick among OMCs. Maintain **Buy**.

EV/EBITDA Valuation

FY13E EV/EBITDA Multiple (x)	4.0	4.5	5.0	5.5	6.0
EBITDA (INR b)	55	55	55	55	55
EV (INR b)	219	247	274	302	329
Net Debt (INR b)	142	142	142	142	142
Implied M Cap (INR b)	77	104	132	159	187
No of Shares (In m)	362	362	362	362	362
Implied Mcap (INR/sh)	213	289	365	441	517
Investments (INR/sh)	307	307	307	307	307
Fair value (INR/sh)	520	596	672	748	824

P/B Valuation

FY13E PB Multiple (x)	0.8	0.9	1.0	1.1	1.2
FY13 Book Value (INR/sh)	491	491	491	491	491
Implied Value (INR/sh)	393	442	491	540	589
Investments (INR/sh)	307	307	307	307	307
Fair value (INR/sh)	700	749	798	847	896

P/E Valuation

FY12E PE Multiple (x)	7.0	8.0	9.0	10.0	11.0
Cons. FY13 EPS* (INR/sh)	47.6	47.6	47.6	47.6	47.6
Implied Value (INR/sh)	333	381	428	476	524
Investments (INR/sh)	307	307	307	307	307
Total Value	640	688	736	783	831

*adjusted for investments

Fair value (INR/sh)

EV/EBITDA	520	596	672	748	824
P/B	700	749	798	847	896
P/E	640	688	736	783	831
Average	620	678	735	793	850
CMP	625	625	625	625	625
% upside/(downside)	-1	8	18	27	36

BPCL's investment valued at INR307/sh

	INR b	INR/sh	
Investments			
Oil India	4.6	12.7	25% discount to CMP/TP
Petronet LNG	13.0	36.0	25% discount to CMP/TP
Indraprastha Gas	7.6	20.9	25% discount to CMP/TP
Treasury Shares	15.8	43.7	25% discount to CMP/TP
Unlisted Investments			
Bharat Oman	15.5	42.9	15% discount to investment
E&P Potential	54.6	151.1	Brazil, Mozambique discoveries
Total	111.1	307.3	

Source: MOSL

Financials and Valuation

Income Statement (Consolidated)

(INR Million)

Y/E March	2008	2009	2010	2011	2012E	2013E
Net Sales	1,112,431	1,365,571	1,238,167	1,536,450	2,089,358	2,027,079
Change (%)	13.3	22.8	-9.3	24.1	36.0	-3.0
Finished Gds Purchase	447,583	601,199	567,667	701,497	958,277	890,848
RM & Other exp	567,540	634,443	533,501	692,475	967,042	1,020,853
Other operating expenses	60,271	96,281	106,461	99,865	111,617	60,515
EBITDA	37,037	33,648	30,539	42,612	52,422	54,863
% of Net Sales	3.3	2.5	2.5	2.8	2.5	2.7
Depreciation	12,921	12,617	14,446	18,914	24,209	25,190
Interest	7,149	24,043	11,247	12,468	18,575	15,772
Other Income	11,673	14,358	23,652	17,252	14,704	12,808
Extraordinary Items (net)	1,560	0	-777	0	0	0
PBT	30,200	11,346	27,721	28,483	24,342	26,709
Tax	11,075	4,104	10,235	11,062	7,978	8,179
Rate (%)	30.0	30.0	36.9	38.8	32.8	30.6
Minority Interest	1,430	904	876	1,071	1,005	1,005
PAT	17,695	6,338	16,610	16,350	15,359	17,525
Adj. PAT	15,143	6,338	16,324	16,350	15,359	17,525
Change (%)	-28.3	-58.1	157.6	0.2	-6.1	14.1

Balance Sheet

(INR Million)

Y/E March	2008	2009	2010	2011	2012E	2013E
Share Capital	3,615	3,615	3,615	3,615	3,615	3,615
Reserves	125,454	129,497	137,814	149,893	161,022	173,895
Net Worth	129,069	133,112	141,429	153,508	164,638	177,510
Minority interest	8,606	9,015	9,396	9,975	10,979	11,984
Loans	160,658	242,392	266,921	251,855	238,113	208,406
Deferred Tax	18,108	15,257	11,477	13,074	13,295	13,525
Capital Employed	316,441	399,775	429,223	428,412	427,025	411,426
Gross Fixed Assets	251,944	263,546	302,023	344,851	366,582	396,907
Less: Depreciation	108,390	120,483	134,524	152,581	176,790	201,980
Net Fixed Assets	143,554	143,062	167,499	192,269	189,792	194,927
Capital WIP	24,414	61,727	78,217	82,864	82,864	82,864
Investments	92,810	164,000	119,323	84,600	117,336	122,336
Intangibles	0	3,855	3,855	3,855	3,855	3,855
Curr. Assets, L & Adv.						
Inventory	115,250	78,706	141,092	182,135	164,993	156,792
Debtors	16,679	15,059	26,009	28,779	29,444	27,415
Cash & Bank Balance	15,889	13,486	7,284	7,971	16,642	8,582
Loans & Advances	67,320	60,808	74,480	86,421	86,374	86,374
Current Liab. & Prov.						
Liabilities	148,340	122,751	160,917	206,051	231,214	235,563
Provisions	11,185	18,209	27,652	34,462	33,093	36,188
Net Current Assets	55,613	27,099	60,297	64,792	33,146	7,411
Less: Miscellaneous exp.	51	33	33	33	33	33
Application of Funds	316,441	399,775	429,223	428,412	427,026	411,426

E: MOSL Estimates

Financials and Valuation

Ratios

Y/E March	2008	2009	2010	2011	2012E	2013E
Basic (INR)						
EPS	41.9	17.5	45.2	45.2	42.5	48.5
Cash EPS	77.6	52.4	85.1	97.5	109.4	118.1
Book Value	357.0	368.2	391.2	424.6	455.4	491.0
Dividend	4.0	7.0	14.0	14.0	10.0	11.0
Payout (incl. Div. Tax.)	34.9	37.8	21.5	39.4	27.5	26.5
Valuation (x)						
P/E			13.8	13.8	14.7	12.9
Cash P/E			7.3	6.4	5.7	5.3
EV / EBITDA			16.3	11.3	8.8	8.0
EV / Sales			0.4	0.3	0.2	0.2
Price / Book Value			1.6	1.5	1.4	1.3
Dividend Yield (%)			2.2	2.2	1.6	1.8
Profitability Ratios (%)						
RoE	12.5	4.8	11.9	11.1	9.7	10.2
RoCE	8.5	5.9	3.9	5.5	6.6	7.1
Turnover Ratios						
Debtors (No. of Days)	5	4	6	7	5	5
Asset Turnover (x)	4.6	5.3	4.4	4.8	5.9	5.3
Leverage Ratio						
Debt / Equity (x)	1.2	1.8	1.9	1.6	1.4	1.2

Cash Flow Statement

(INR Million)

Y/E March	2008	2009	2010	2011	2012E	2013E
OP/(Loss) before Tax	28,867	11,431	28,499	28,632	24,342	26,709
Depreciation	12,921	12,617	14,446	18,914	24,209	25,190
Interest Paid	6,980	23,878	11,247	12,468	18,575	15,772
Direct Taxes Paid	-9,566	-5,786	-10,469	-12,475	-7,757	-7,949
Other operating items	-4,080	3,582	-3,658	-13,028	0	0
(Inc)/Dec in Wkg. Capital	-21,793	24,457	-42,307	13,489	40,317	17,675
CF from Op. Activity	13,329	70,179	-2,242	48,001	99,686	77,397
(Inc)/Dec in FA & CWIP	-33,450	-44,851	-51,819	-43,057	-21,731	-30,325
(Pur)/Sale of Investments	-16,908	-81,899	44,018	38,532	-32,737	-5,000
CF from Inv. Activity	-50,262	-128,166	-7,801	-4,525	-54,468	-35,325
Issue of Shares	0	0	2,350	0	0	0
Net Inc / (Dec) in Debt	14,105	22,157	28,080	4,137	-13,741	-29,707
Interest paid	-6,584	-23,439	-13,722	-13,967	-18,575	-15,772
Dividends Paid	-5,285	-2,398	-3,506	-6,449	-4,230	-4,653
Other Fi. Activities	99	4,537	-1,605	3,278	0	0
CF from Fin. Activity	2,334	856	11,596	-13,001	-36,546	-50,132
Inc / (Dec) in Cash	-34,599	-57,131	1,552	30,475	8,671	-8,060
Cash (incl ST borrowings)	50,488	70,617	5,732	-22,504	7,971	16,642
Closing Balance	15,889	13,486	7,284	7,971	16,642	8,582

E: MOSL Estimates

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BPCL

- | | |
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