RESULT UPDATION

BPCL

BPCL reported 34% YoY growth in sales to Rs.569 bn in 2QFY13 in line with street expectation. Growth in sales was due to higher through put, higher GRM and cash support from Government. BPCL reported through put of 5.94 MMT as against 5.58 MMT in 2QFY12 and 5.91 MMT in 1QFY13. The company has reported total crude sales during the quarter 7.77 MMT versus 7 MMT in 2QFY13 and 8.5MMT in 1QFY13. The 2QFY13 operational performance was better than expectation with Gross Refinery Margin (GRM) of $6.5/bbl. In 1HFY13 average GRM was $4.55/bbl versus $1.42/bbl in 1HFY12.

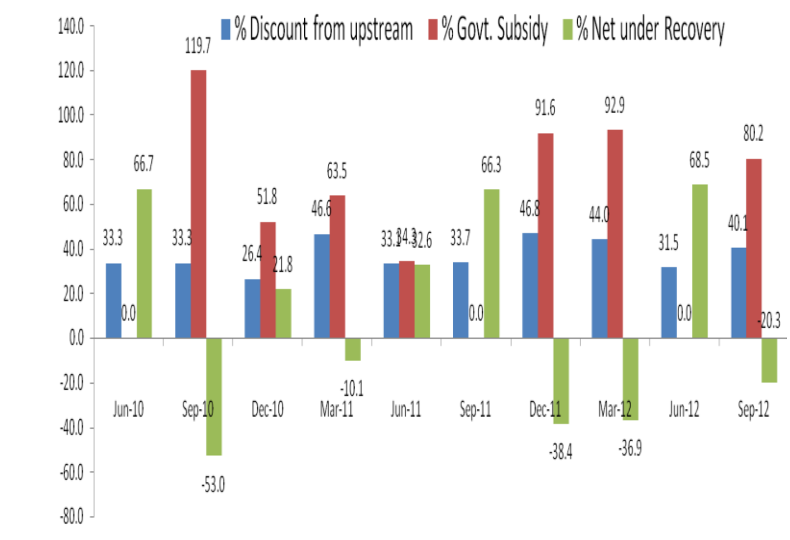
In 1HFY13, the company reported total revenue loss of Rs.207 bn as a gross under recovery of which 35% of each received from upstream companies and Government to compensate the part of under recovery. During quarter the company received Rs.73 bn from Government against nil support in 1QFY13 and Rs.36 bn from upstream companies as against Rs37 bn in 1QFY13. Consequently total subsidy received from government and upstream companies stood at Rs.73 bn each respectively. As the result at the end of 1HFY13, total net revenue loss (Net under recovery) was Rs.62 bn.

BPCL's other expenses declined by 79% QoQ to Rs.7.7 bn. In 1HFY12 other expenditure was Rs.41 bn including foreign exchange loss of Rs9.8 bn whereas 1HFY13 total foreign exchange fluctuation loss stood at 4.4 bn. As the EBITDA for the quarter was Rs.54 bn, higher than street expectation of Rs.18 bn.

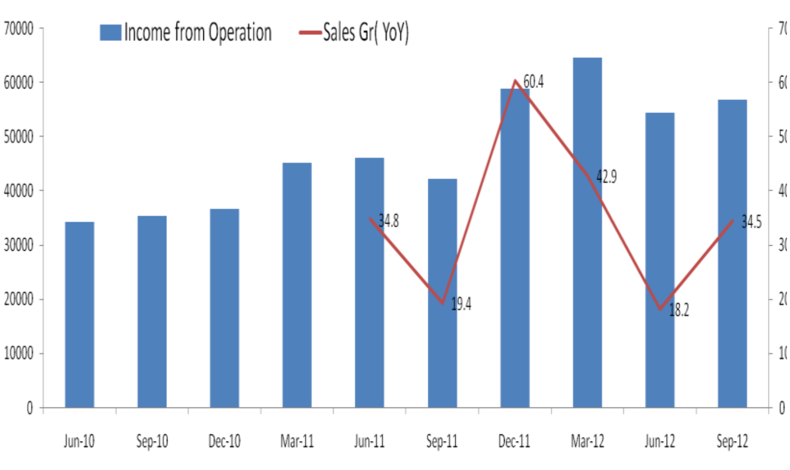
Interest expenses declined by 9% YoY and 21% QoQ to Rs.4 bn. Total interest expenses during 1HFY13 stood at Rs9.3 bn as against Rs.8 bn in 1HFY13 largely due to no cash payment yet from Government. Cash disbursals are contingent on parliamentary approval. Parliament would consider higher FY13 subsidy to OMCs during the winter session, which could reduce debt concerns for BPCL. The company has short term borrowing at the end of 2QFY13 was Rs.218 bn as against Rs.222 bn in March 2012.

BPCL's net profit was Rs.50 bn higher than street expectation of Rs. 10 bn due to Rs.12 bn forex gain, Rs.72 bn received from Government and higher gross under recovery of $6.4/bbl. But ad hoc nature of subsidy sharing formula and stretched balance sheet remain a concern. We believe OMCs profitability more depend on Government and upstream companies support rather than fundaments.

BPCL underperformed nifty by 6%% in last three month due to uncertain nature of earnings of the company, increased of crude oil and rupees depreciation. This will increase the under recovery of oil marketing companies. Moreover there is no sharing formula for under recovery; valuation of the company remained depressed, saved only by its seemingly attractive overseas E&P portfolio. The company reported successful discovery in Brazil and Mozambique. At current prices of Rs327stock is trading at 15.7 times of P/E for FY13E. Despite of attractive valuation remain have neutral view on the stock.



(Source: Company/Eastwind)



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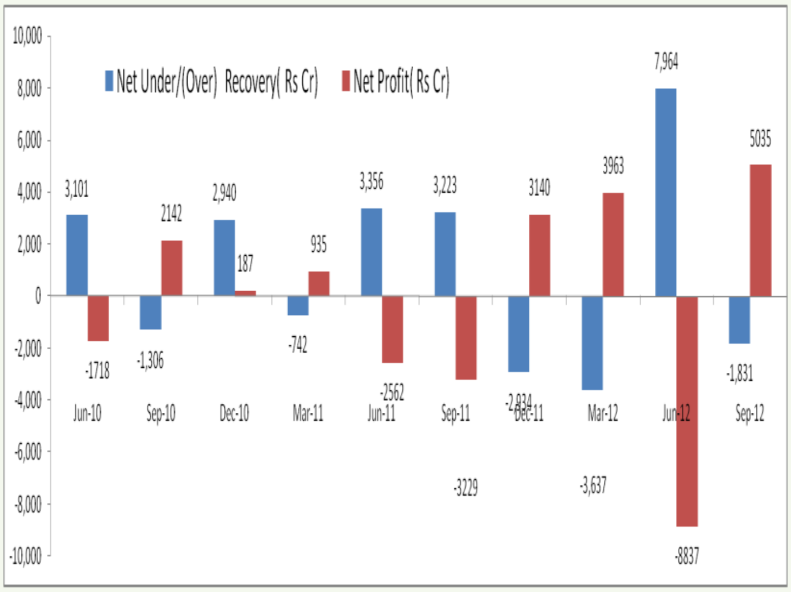

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