

July 25, 2024

RESULT REPORT Q1 FY25 | Sector: Energy

Chennai Petroleum Corp Ltd

In line reported performance

Our View

Chennai Petroleum's Q1FY25 core performance was weaker than our expectations at USD5.2/bbl, with an EBITDA of Rs 6.6bn; USD6.33/bbl of reported GRM (our est. USD6) on narrowing Russian crude discounts. As per our calculations, there is an inventory loss which could be at USD1.13/bbl with no forex impact during the quarter. As per our calculations, the core GRMs could be at USD 5.2/bbl. Spot Russian crude sourcing moved up contributing 40% as it was available cheap compared to other suppliers. We maintain BUY rating, with an unchanged 12-mth TP of Rs1,450.

Result Highlights

- EBITDA/PAT at Rs bn 6.6/3.4 (down 30%/37.5% YoY and 36.3%/44.1% QoQ). The performance is in line with our estimates and lower than the consensus.
- CPCL's Q1FY25 reported GRM was USD 6.33/bbl (USD 7.7 the quarter prior, USD 8.33 a year ago) while the Arab heavy-light difference was USD 1.5/bbl (1.8 in the prior quarter). There was no RTP reduction impact, while as per our assumption, there could be an inventory gain of USD1.13/bbl which means that the core GRMs could be at ~USD5.2/bbl.
- Refinery throughput was 2.83mmt at ~107% utilization (117% in the prior quarter, 112% a year ago). Opex: At USD 2.7/bbl opex is at the trailing 8-quarter average. Forex impact: There was no forex impact during this quarter.
- Sequentially, the debt increased by Rs 16.3bn to Rs 43.8bn (vs peak of Rs104bn) and decreased by Rs15bn on YoY basis on strong cashflow generation, while the FCF was at Rs 3.8bn. The company expects a Rs 30bn of normal debt levels.
- Capex for qtr was Rs 1.2bn and FY25 is targeted at Rs 5bn.
- Crude Sourcing mix: Indigenous contributed 15%, 15% Saudi, 25% Iraq, Russia 40%, and rest 5% on Spot from other countries. The Russian crude imports increased by 10% sequentially mainly bought on spot basis as it was cheaper over other suppliers. The Russian crude discounts were lower (USD2-3/bbl) as the system for booking of crude price changed from earlier delivery to the Indian port to Russian port dispatch. It takes ~30days for crude to reach Indian port when left Russian port.
- In terms of the slate mix, the diesel contribution to the slate was ~45%, gasoline ~11%, ATF ~8% and lubes ~2%, fuel & loss 8.5%.

Valuation

High GRM sensitivity: a USD1/bbl change in GRM changes EBITDA by Rs 7bn. Declared dividend of Rs 55/share in FY24 (5.4% dividend yield), 3.6/3% FY25e/26e, would be key for shareholders. The BV/share for FY25e/26e: Rs 663/734, debt on books is towards working capital requirements. At CMP, the stock trades at 3.4x/3.8x FY25e/26e EV/EBITDA and 1.5x/1.4x P/BV. We maintain BUY rating, with an unchanged 12-mth TP of Rs1,450, valuing the stock at 7.4x FY26e EV/EBITDA.

Exhibit 1: Actual vs estimate

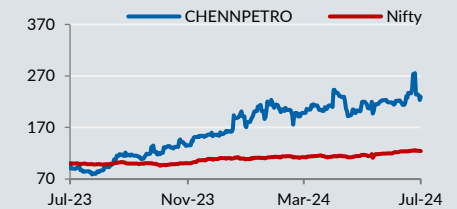
Rs mn	Actual	Estimate		% Variation		Remarks
		YES Sec	Consensus	YES Sec	Consensus	
Sales	170,950	166,780	179,116	2.50	-4.56	In line reported performance
EBITDA	6,635	6,349	8,683	4.49	-23.58	
EBITDA Margin (%)	3.88	3.81	4.85	7bps	-97bps	
Adjusted PAT	3,426	3,266	3,997	4.91	-14.28	

Reco	: BUY
CMP	: Rs 1,020
Target Price	: Rs 1,450
Potential Return	: +42.2%

Stock data (as on Jul 25, 2024)

Nifty	24,406
52 Week h/l (Rs)	1275 / 348
Market cap (Rs/USD mn)	151220 / 1806
Outstanding Shares (mn)	149
6m Avg t/o (Rs mn):	1,443
Div yield (%):	5.8
Bloomberg code:	MRL IN
NSE code:	CHENNPETRO

Stock performance



	1M	3M	1Y
Absolute return	6.0%	-5.6%	153.7%

Shareholding pattern (As of Mar '24 end)

Promoter	67.3%
FII+DII	16.6%
Others	16.1%

Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	1450	1450

Δ in estimates

(1-Yr)	FY25e	FY26e
EPS (New)	123.5	101.0
EPS (Old)	123.5	101.0
% Change	-	-

Financial Summary

(Rs bn)	FY24	FY25E	FY26E
Revenue	663.9	579.2	528.8
YoY Growth	(13.5)	(12.8)	(8.7)
EBIDTA	44.8	33.4	29.6
OPM %	6.7	5.8	5.6
PAT	27.6	18.4	15.0
YoY Growth	(26.2)	(33.4)	(18.3)
ROE	32.1	18.6	13.8
EPS	182.1	123.5	101.0
P/E	5.6	8.3	10.1
BV	577.1	663.6	733.6
EV/EBITDA	2.5	3.4	3.8

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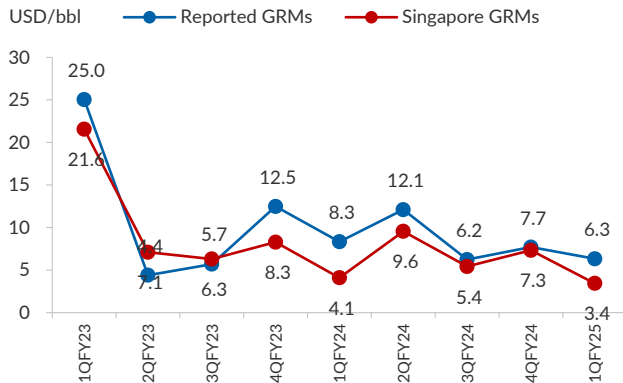
Exhibit 2: Earnings snapshot

Particulars (Rs mn)	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25	y/y (%)	q/q (%)	FY23	FY24	y/y (%)
Revenue	147,448	165,446	173,759	177,202	170,950	15.9	(3.5)	767,347	663,854	(13.5)
Expenditure	137,950	147,401	166,674	166,785	164,315	19.1	(1.5)	710,442	618,810	(12.9)
-Raw Material	133,640	142,415	162,226	161,954	159,597	19.4	(1.5)	685,433	600,236	(12.4)
-Staff Cost	1,453	1,358	1,323	1,334	1,070	(26.4)	(19.8)	5,630	5,467	(2.9)
- Other Expenses	2,856	3,629	3,126	3,497	3,648	27.7	4.3	19,379	13,107	(32.4)
Operating Profit	9,498	18,044	7,085	10,417	6,635	(30.1)	(36.3)	56,905	45,044	(20.8)
OPM(%)	6.4	10.9	4.1	5.9	3.9	119 bps	-703 bps	7.4	6.8	-63 bps
Other Income	22	51	25	35	41	91.2	17.8	218	133	(39.3)
Depreciation	1,473	1,566	1,510	1,508	1,503	2.0	(0.3)	5,735	6,056	5.6
Interest	572	651	500	509	477	(16.7)	(6.4)	3,302	2,233	(32.4)
Excpnl Loss/(Profit)	-	-	-	-	-	n.a.	n.a.	-	-	n.a.
PBT	7,474	15,879	5,100	8,435	4,696	(37.2)	(44.3)	48,087	36,888	(23.3)
Tax	1,991	3,973	1,211	2,311	1,270	(36.2)	(45.0)	12,749	9,486	(25.6)
PAT	5,483	11,906	3,889	6,124	3,426	(37.5)	(44.1)	35,338	27,401	(22.5)
Adj PAT	5,483	11,906	3,889	6,124	3,426	(37.5)	(44.1)	35,338	27,401	(22.5)

Exhibit 3: Operating highlights

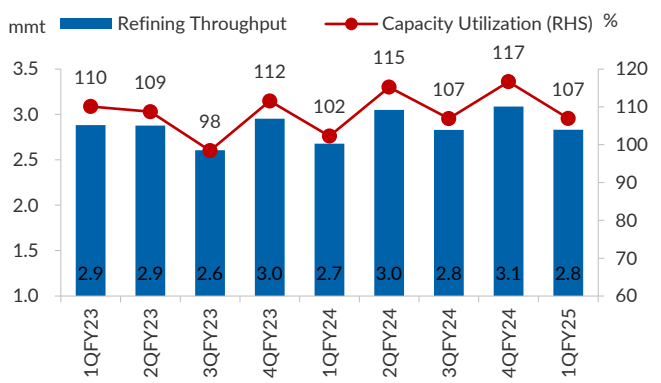
Particulars	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25	y/y (%)	q/q (%)	FY23	FY24	y/y (%)
Refining Throughput (mmt)	2.7	3.0	2.8	3.1	2.8	5.7	(8.3)	11.3	11.6	2.9
Capacity Utilization (%)	102.3	115.2	106.9	116.6	106.9	4.6	(8.3)	107.2	110.3	2.9
GRMs (US\$/bbl)										
Reported GRMs	8.3	12.1	6.2	7.7	6.3	(24.0)	(17.8)	12.1	8.6	(28.4)
Inv gains/ (loss)	(2.7)	4.0	0.3	(0.6)	1.1	(142.3)	(288.3)	(1.4)	0.4	(124.9)
Core GRMs	11.0	8.1	5.9	8.3	5.2	(52.7)	(37.3)	13.5	8.2	(38.6)
Duties Adjusted Core GRMs										-
Singapore GRMs	4.1	9.6	5.4	7.3	3.4	(15.8)	(52.9)	10.9	6.7	(38.5)
Export duty – RTP Reduction										-
Rs bn	-	5.7	3.6	-	-	n.a.	n.a.	40.1	9.3	(76.8)
US\$/bbl	-	3.0	2.0	-	-	n.a.	n.a.	5.6	1.3	(77.2)
Debt Position (Rs mn)	58,732	34,280	47,867	27,497	43,776	(25.5)	59.2	42,082	27,497	(34.7)
Capex (Rs mn)	1,240	1,590	1,690	1,090	1,160	(6.5)	6.4	6,090	5,610	(7.9)
Forex Gains/(losses) (Rs mn)	(66)	(439)	(59)	(158)	-	(100.0)	(100.0)	(5,234)	(721)	(86.2)
FCF (PAT+Dep-Capex) (Rs mn)	5,716	11,881	3,709	6,541	3,769	(34.1)	(42.4)	34,983	27,848	(20.4)

Exhibit 4: GRM



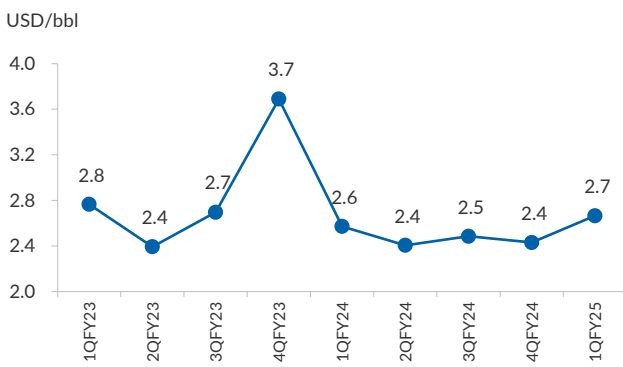
Source: Company, YES Sec

Exhibit 5: Throughput



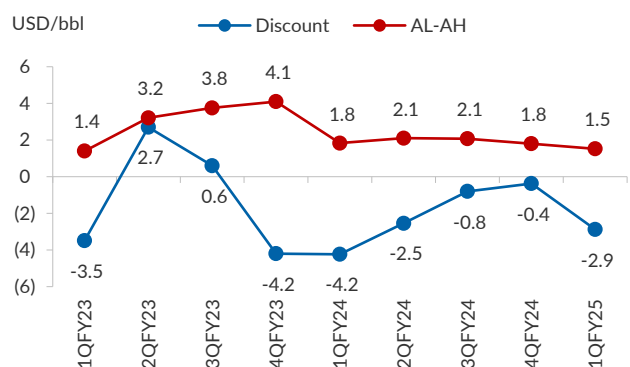
Source: Company, YES Sec

Exhibit 6: Refining Opex



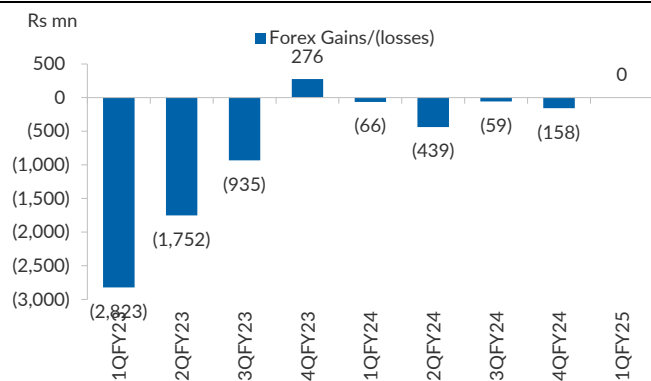
Source: Company, YES Sec

Exhibit 7: Premium to the benchmark and AL-AH difference



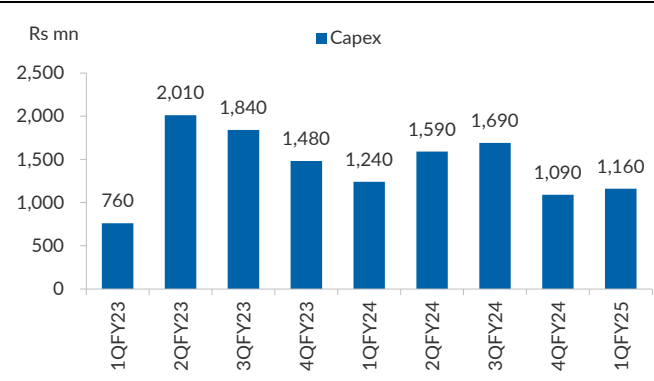
Source: Company, YES Sec

Exhibit 8: Forex gains / (losses)



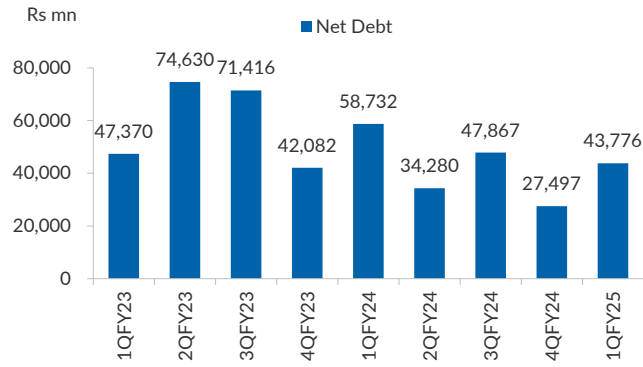
Source: Company, YES Sec

Exhibit 9: Capex



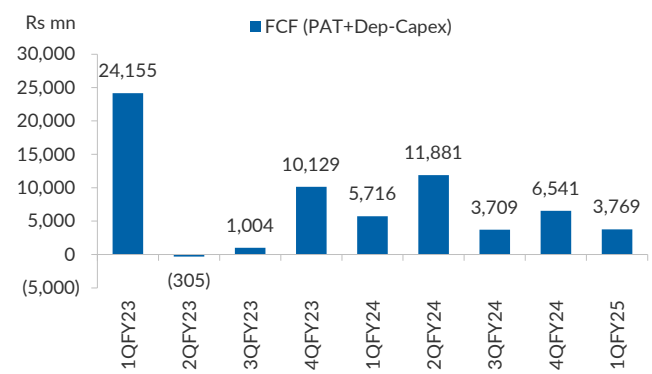
Source: Company, YES Sec

Exhibit 10: Net debt



Source: Company, YES Sec

Exhibit 11: FCF changes



Source: Company, YES Sec

VIEW & VALUATION

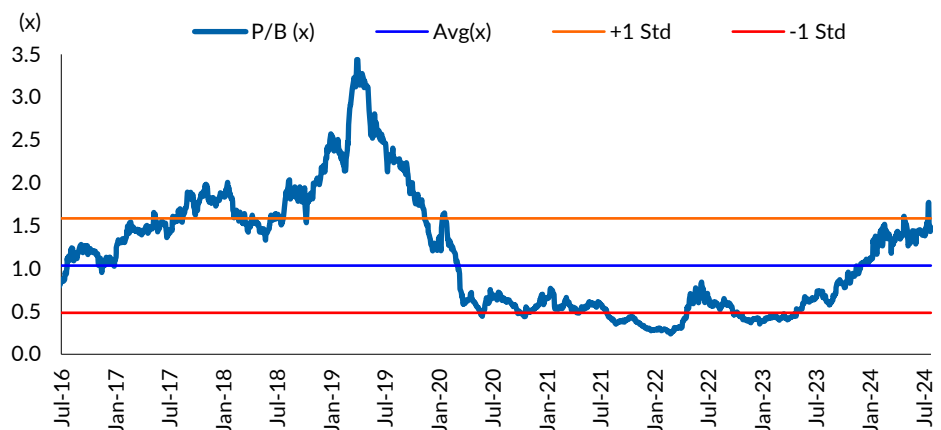
BUY with a TP of Rs 1450/sh.

High GRM sensitivity: a USD1/bbl change in GRM changes EBITDA by Rs 7bn. Declared dividend of Rs 55/share in FY24 (5.4% dividend yield), 3.6/3% FY25e/26e, would be key for shareholders. The BV/share for FY25e/26e: Rs 663/734, debt on books is towards working capital requirements. At CMP, the stock trades at 3.4x/3.8x FY25e/26e EV/EBITDA and 1.5x/1.4x P/BV. We maintain BUY rating, with an unchanged 12-mth TP of Rs1,450, valuing the stock at 7.4x FY26e EV/EBITDA.

Exhibit 12: Valuation table

EV/EBITDA	FY26E
Multiple	7.4
EBITDA	29,624
Debt	32,859
Cash	29,175
EV	219,063
Equity value	215,919
No of shares	149
VPS	1,450

Exhibit 13: P/BV (x) band, one-year-forward



FINANCIALS

Exhibit 14: Income statement

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Revenue	433,754	767,347	663,854	579,155	528,826
Total Expense	406,436	710,375	619,099	545,761	499,202
Operating Profit	27,317	56,972	44,755	33,395	29,624
Other Income	162	151	133	146	160
Depreciation	5,039	5,735	6,056	6,190	6,693
EBIT	22,441	51,389	38,832	27,351	23,091
Interest	4,124	3,302	2,233	2,768	2,996
Extraordinary Item	-	-	-	-	-
PBT	18,316	48,087	36,599	24,582	20,095
Tax	4,892	12,749	8,989	6,187	5,058
PAT	13,424	35,338	27,610	18,395	15,037
Adj. PAT	13,424	35,338	27,113	18,395	15,037
Eps	90.1	237.3	182.1	123.5	101.0

Exhibit 15: Balance sheet

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Equity capital	1,489	1,489	1,489	1,489	1,489
Reserves	26,413	61,321	84,441	97,325	107,746
Net worth	27,902	62,810	85,930	98,814	109,235
Debt	92,383	42,596	27,859	32,859	32,859
Deferred tax liab (net)	5,631	7,646	8,143	8,143	8,143
Capital Employed	125,917	113,051	121,932	139,817	150,237
Fixed assets	81,762	79,680	77,161	80,438	83,831
Investments	119	120	120	120	120
Net working capital	44,035	33,252	44,651	59,259	66,286
Inventories	75,326	59,736	78,309	64,733	58,967
Sundry debtors	2,523	2,987	4,616	3,173	2,898
Cash & Bank Balance	120	86	943	19,628	30,029
Other current assets	12,989	15,812	19,886	19,735	19,646
Sundry creditors	32,401	30,071	42,825	31,735	28,977
Other liabilities	14,523	15,297	16,276	16,276	16,276
Application of Funds	125,917	113,051	121,932	139,817	150,237

Exhibit 16: Cash flow statement

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
PBT	18,316	48,087	36,599	24,582	20,095
Depreciation & amortization	5,039	5,735	6,050	6,190	6,693
Interest expense	3,863	3,230	2,233	2,768	2,996
(Inc)/Dec in working capital	(17,218)	10,848	(132)	-	-
Tax paid	(204)	(10,074)	(8,824)	4,078	3,373
Less: Interest/Dividend Income Received	(59)	(79)	9,185	(6,187)	(5,058)
Other operating Cash Flow	521	(257)	(18,168)	-	-
Cash flow from operating activities	10,259	57,490	26,943	31,431	28,099
Capital expenditure	(6,995)	(4,176)	(6,027)	(9,467)	(10,086)
Inc/(Dec) in investments	-	(0)	132	-	-
Add: Interest/Dividend Income Received	237	151	3	-	-
Cash flow from investing activities	(6,759)	(4,025)	(5,892)	(9,467)	(10,086)
Inc/(Dec) in share capital	7,750	-	-	-	-
Inc/(Dec) in debt	(7,812)	(48,886)	(14,814)	5,000	-
Interest Paid	(3,367)	(4,352)	(2,227)	(2,768)	(2,996)
Dividend Paid	-	(298)	(4,021)	(5,510)	(4,616)
Others	-	-	-	-	-
Cash flow from financing activities	(3,428)	(53,536)	(21,061)	(3,278)	(7,613)
Net cash flow	72	7,979	(11)	18,686	10,401

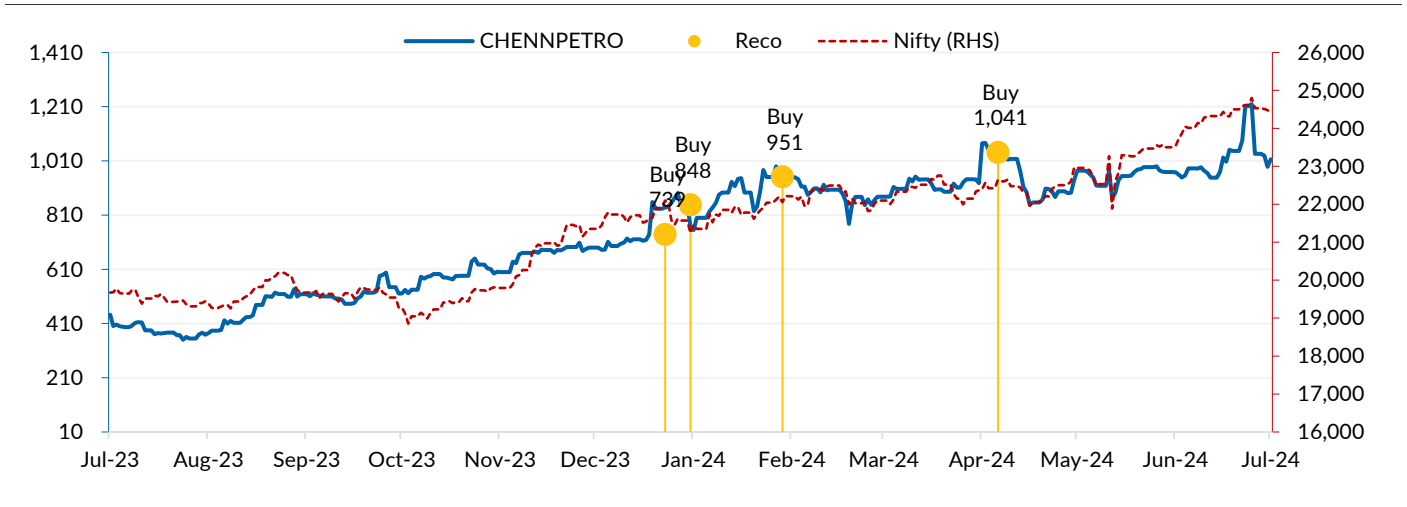
Exhibit 17: Du-pont analysis

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Tax burden (x)	0.7	0.7	0.8	0.7	0.7
Interest burden (x)	0.8	0.9	0.9	0.9	0.9
EBIT margin (x)	0.1	0.1	0.1	0.0	0.0
Asset turnover (x)	2.8	4.6	3.9	3.1	2.8
Financial leverage (x)	7.4	3.7	2.3	2.0	1.8
RoE (%)	48.1	59.5	32.1	18.6	13.8

Exhibit 18: Ratio analysis

Y/e 31 Mar	FY22	FY23	FY24	FY25E	FY26E
Growth matrix (%)					
Revenue growth	93.3	76.9	(13.5)	(12.8)	(8.7)
Op profit growth	35.9	108.6	(21.4)	(25.4)	(11.3)
EBIT growth	35.9	129.0	(24.4)	(29.6)	(15.6)
Net profit growth	50.2	178.6	(26.2)	(33.4)	(18.3)
Profitability ratios (%)					
OPM	6.3	7.4	6.7	5.8	5.6
EBIT margin	5.2	6.7	5.8	4.7	4.4
Net profit margin	3.1	4.9	4.2	3.2	2.8
RoCE	17.8	45.5	31.8	19.6	15.4
RoE	48.1	59.5	32.1	18.6	13.8
RoA	8.6	22.6	16.3	10.0	7.8
Per share ratios					
EPS	90.1	237.3	182.1	123.5	101.0
Dividend per share	2.0	27.0	55.0	37.0	31.0
Cash EPS	124.0	289.7	226.1	165.1	145.9
Book value per share	187.4	421.8	577.1	663.6	733.6
Valuation ratios					
P/E	1.4	1.0	5.6	8.3	10.1
P/CEPS	1.0	0.8	4.5	6.2	7.0
P/B	0.7	0.6	1.8	1.5	1.4
EV/EBIDTA	4.4	1.8	2.5	3.4	3.8
Payout (%)					
Dividend payout	2.2	11.4	30.2	30.0	30.7
Tax payout	26.7	26.5	25.9	25.2	25.2
Liquidity ratios					
Debtor days	1.90	1.31	2.09	2.00	2.00
Inventory days	54.9	36.7	41.7	45.0	45.0
Creditor days	21.6	14.9	20.0	20.0	20.0

Recommendation Tracker



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