

October 22, 2024

RESULT REPORT Q2 FY25 | Sector: Energy

Chennai Petroleum Corp Ltd

Weak performance hit by shutdown & inventory losses

Chennai Petroleum's Q2FY25 core performance was a disappointment, EBITDA loss was at Rs 6.7bn; negative USD1.6/bbl of reported GRM (our est. of positive USD2.9) on shutdown and inventory losses. As per our calculations, there is an inventory loss which could be at USD1.8/bbl with no forex impact during the quarter. As per our calculations, the core GRMs could be at USD 0.20/bbl which is much lower than the benchmark of USD3.6/bbl. We maintain BUY rating, with a revised 12-mth TP of Rs1,100.

Result Highlights

- **EBITDA/PAT loss** at Rs bn 6.7/6.3 (vs positive Rs bn 18/11.9 in Q2FY24 and 6.6/3.4 in Q1FY25). The performance is significantly weaker than our estimate of Rs bn of 0.02/ negative 1.44, while the consensus was at Rs bn 0.26/ negative 1.26. GRMs were impacted by shutdown of one of the phases of refinery and secondary units for whole of Sep'24, the change in inventory in the system also impacted the GRMs.
- CPCL's Q2FY25 **reported GRM** was at negative ~USD 1.6/bbl (USD 6.3 the quarter prior, USD 12.1 a year ago) while the Arab heavy-light difference was USD 1.3/bbl (1.5 in the prior quarter). There was no RTP reduction impact, while as per our assumption, there could be an inventory loss of USD1.8/bbl which means that the core GRMs were quite weak and could be at ~USD0.20/bbl.
- **Refinery throughput** was 2.10mmt at ~79% utilization (107% in the prior quarter, 115% a year ago) was lower than our expectations. Of the three refinery phases, one of them had a shutdown for whole of Sep'24 and 15 days in Oct'24 which impacted the plant utilization. The secondary units – FCCU, DCU were under shutdown further impacting the GRMs at large, if we normalize the same then the core GRMs could be ~USD3-3.2/bbl.
- **Opex:** At USD 3.8/bbl opex is USD 1/bbl above the trailing 8-quarter average of USD2.8/bbl as the plant utilization was lower. **RLNG consumption** during the quarter was ~1mmscmd. There was no forex impact during this quarter.
- Sequentially, the **debt increased** by Rs 16.8bn to Rs 60.6bn (vs peak of Rs104bn) and by Rs 26.3bn YoY on weaker GRMs. The company expects a Rs 45bn of normal debt levels. **Capex** for quarter was at Rs 2.4bn, (Rs 3.57bn in H1FY25) and FY25 is targeted at Rs 5bn.
- **Crude Sourcing mix:** Indigenous contributed 15%, 15% Saudi, 25% Iraq, Russia 33%, and rest 12% on Spot from other countries. The Russian crude discounts were lower (USD2/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 9%. The diesel spreads were more impacted due to shutdowns and inventory changes.
- **H1FY25 performance:** EBITDA loss at Rs 109mn (vs a profit of Rs 27.5bn in previous period) while PAT loss at Rs 2.9bn (vs a profit of Rs 17.4bn in previous period) and the reported GRM at USD2.9/bbl (vs USD10.3). The OCF is at negative Rs 21.5bn (vs a positive Rs 17.1bn in previous period) on weaker GRMs and plant shutdowns.

Valuation

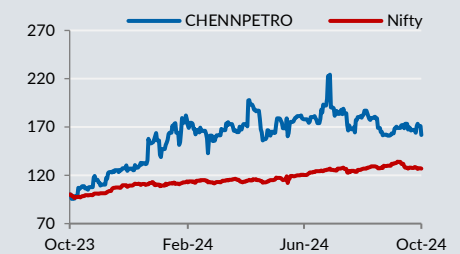
High GRM sensitivity: a USD1/bbl change in GRM changes EBITDA by Rs 7.7bn. Declared dividend of Rs 55/share in FY24 (6.3% dividend yield), 0.5/3.6/2.5% FY25e/26e/27e, would be key for shareholders. The BV/share for FY25e/26e/27e: Rs 587/666/714, debt on books is towards working capital requirements. At CMP, the stock trades at 10.4x/3.7x/5x FY25e/26e/27e EV/EBITDA and 1.5x/1.3x/1.2x P/BV. We maintain BUY rating, with a revised 12-mth TP of Rs1,100, valuing the stock at 7.4x FY27e EV/EBITDA.

Reco	: BUY
CMP	: Rs 879
Target Price	: Rs 1,100
Potential Return	: +25.1%

Stock data (as on Oct 22, 2024)

Nifty	24,472
52 Week h/l (Rs)	1275 / 508
Market cap (Rs/USD mn)	134646 / 1602
Outstanding Shares (mn)	149
6m Avg t/o (Rs mn):	1,279
Div yield (%):	6.2
Bloomberg code:	MRL IN
NSE code:	CHENNPETRO

Stock performance



	1M	3M	1Y
Absolute return	-1.1%	-14.6%	61.6%

Shareholding pattern (As of Sep '24 end)

Promoter	67.3%
FII+DII	16.5%
Others	16.2%

Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	1100	1300

Δ in estimates

(1-Yr)	FY25e	FY26e	FY27e
EPS (New)	14.5	111.2	69.8
EPS (Old)	64.8	122.4	83.5
% Change	-77.7	-9.2	-16.4

Financial Summary

(Rs bn)	FY25E	FY26E	FY27E
Revenue	558.5	530.7	519.5
YoY Growth	(15.9)	(5.0)	(2.1)
EBIDTA	11.7	31.7	23.9
OPM %	2.1	6.0	4.6
PAT	2.2	16.6	10.4
YoY Growth	(92.2)	669.1	(37.2)
ROE	2.5	17.7	10.1
EPS	14.5	111.2	69.8
P/E	60.8	7.9	12.6
BV	587.3	666.4	714.2
EV/EBITDA	10.4	3.7	5.0

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Lead Analyst

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Exhibit 1: Actual vs estimate

Rs mn	Actual	Estimate		% Variation		Remarks
		YES Sec	Consensus	YES Sec	Consensus	
Sales	120,865	131,464	131,708	(8.06)	(8.23)	Weak performance hit by shutdowns & inventory losses
EBITDA	(6,744)	15	260	n.a.	n.a.	
EBITDA Margin (%)	-5.58	0.01	0.20	-559bps	-578bps	
Adjusted PAT	(6,295)	(1,441)	(1,258)	n.a.	n.a.	

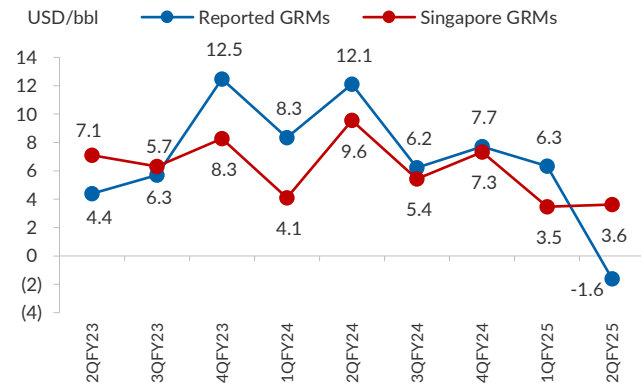
Exhibit 2: Earnings snapshot

Particulars (Rs mn)	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25	Q2 FY25	y/y (%)	q/q (%)	H1FY24	H1FY25	y/y (%)
Revenue	165,446	173,759	177,202	170,950	120,865	(26.9)	(29.3)	312,894	291,815	(6.7)
Expenditure	147,401	166,674	166,785	164,315	127,609	(13.4)	(22.3)	285,351	291,924	2.3
-Raw Material	142,415	162,226	161,954	159,597	122,553	(13.9)	(23.2)	276,056	282,150	2.2
-Staff Cost	1,358	1,323	1,334	1,070	1,159	(14.6)	8.3	2,811	2,229	(20.7)
- Other Expenses	3,629	3,126	3,497	3,648	3,897	7.4	6.8	6,485	7,545	16.3
Operating Profit	18,044	7,085	10,417	6,635	(6,744)	n.a.	n.a.	27,542	(109)	n.a.
OPM(%)	10.9	4.1	5.9	3.9	(5.6)	-1461 bps	-966 bps	8.8	(0.0)	-884 bps
Other Income	51	25	35	41	227	341.9	451.6	73	268	267.9
Depreciation	1,566	1,510	1,508	1,503	1,538	(1.8)	2.3	3,039	3,041	0.1
Interest	651	500	509	477	519	(20.4)	8.8	1,224	996	(18.6)
Excpnl Loss/(Profit)	-	-	-	-	-	n.a.	n.a.	-	-	n.a.
PBT	15,879	5,100	8,435	4,696	(8,574)	n.a.	n.a.	23,353	(3,877)	n.a.
Tax	3,973	1,211	2,311	1,270	(2,279)	n.a.	n.a.	5,964	(1,008)	n.a.
PAT	11,906	3,889	6,124	3,426	(6,295)	n.a.	n.a.	17,389	(2,869)	n.a.
Adj PAT	11,906	3,889	6,124	3,426	(6,295)	n.a.	n.a.	17,389	(2,869)	n.a.

Exhibit 3: Operating highlights

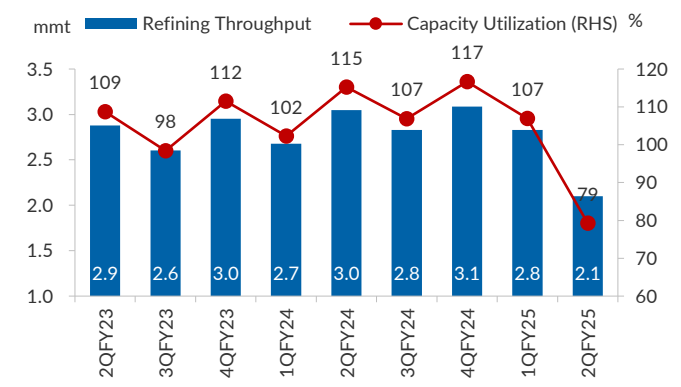
Particulars	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25	Q2 FY25	y/y (%)	q/q (%)	H1FY24	H1FY25	y/y (%)
Refining Throughput (mmt)	3.0	2.8	3.1	2.8	2.1	(31.2)	(25.9)	5.7	4.9	(13.9)
Capacity Utilization (%)	115.2	106.9	116.6	106.9	79.3	(31.2)	(25.9)	108.7	93.1	(14.4)
GRMs (US\$/bbl)										
Reported GRMs	12.1	6.2	7.7	6.3	(1.6)	n.a.	n.a.	10.3	3.0	(71.4)
Inv gains/ (loss)	4.0	0.3	(0.6)	1.1	(1.8)	n.a.	n.a.	0.9	(0.1)	n.a.
Core GRMs	8.1	5.9	8.3	5.2	0.2	(97.5)	(96.2)	9.5	3.1	(67.5)
Duties Adjusted Core GRMs										-
Singapore GRMs	9.6	5.4	7.3	3.5	3.6	(62.1)	4.4	7.0	3.5	(49.5)
Export duty – RTP Reduction										-
Rs bn	5.7	3.6	-	-	-	n.a.	n.a.	5.7	-	n.a.
US\$/bbl	3.0	2.0	-	-	-	n.a.	n.a.	1.6	-	n.a.
Debt Position (Rs mn)	34,280	47,867	27,497	43,776	60,584	76.7	38.4	34,280	60,584	76.7
Capex (Rs mn)	1,590	1,690	1,090	1,160	2,409	51.5	107.7	2,830	3,569	26.1
Forex Gains/(losses) (Rs mn)	(439)	(59)	(158)	-	-	-	-	(504)	-	-
FCF (PAT+Dep-Capex) (Rs mn)	11,881	3,709	6,541	3,769	(7,166)	n.a.	n.a.	17,597	(3,398)	n.a.

Exhibit 4: GRM



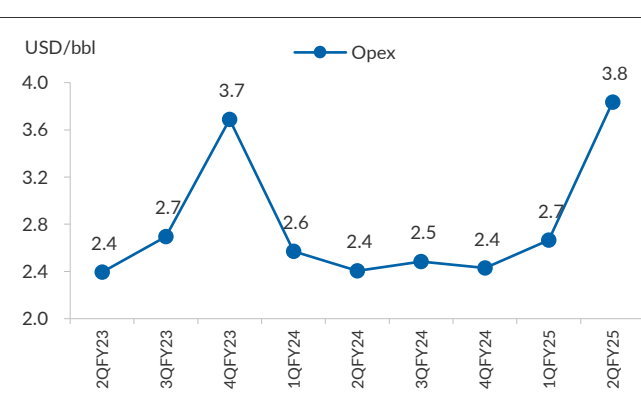
Source: Company, YES Sec

Exhibit 5: Throughput



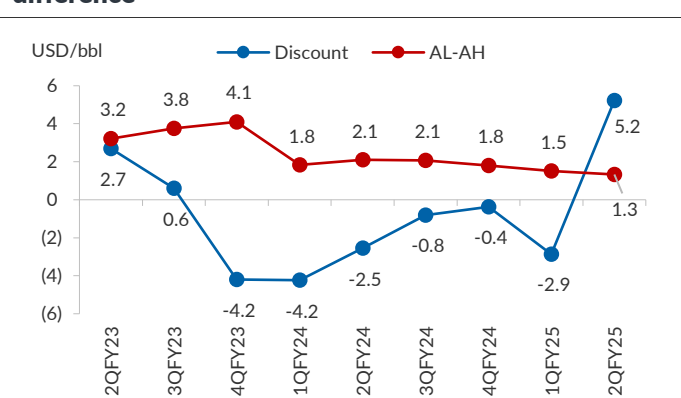
Source: Company, YES Sec

Exhibit 6: Refining Opex



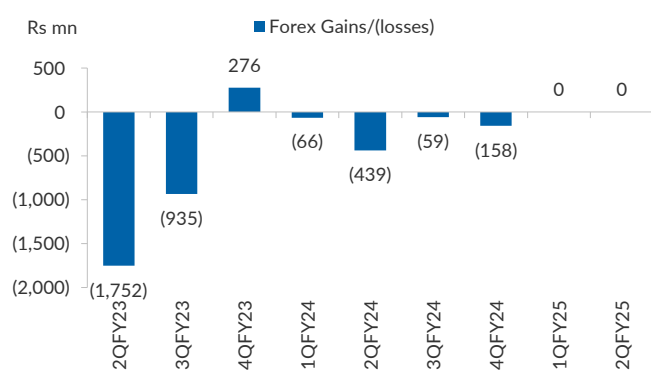
Source: Company, YES Sec

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



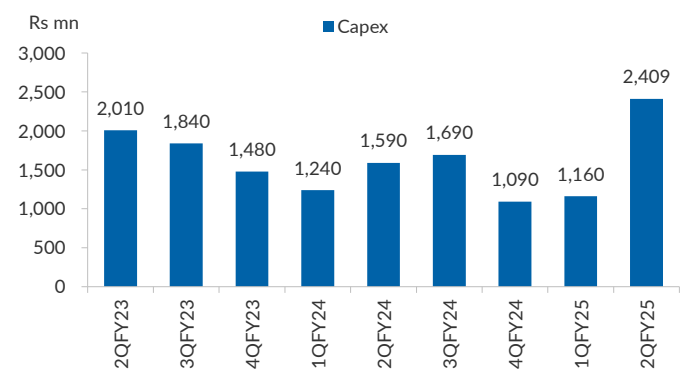
Source: Company, YES Sec

Exhibit 8: Forex gains / (losses)



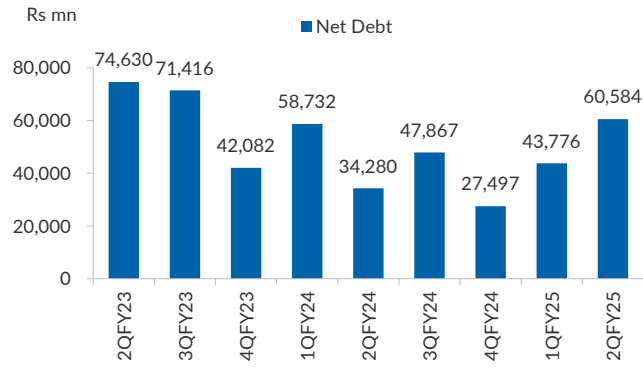
Source: Company, YES Sec

Exhibit 9: Capex



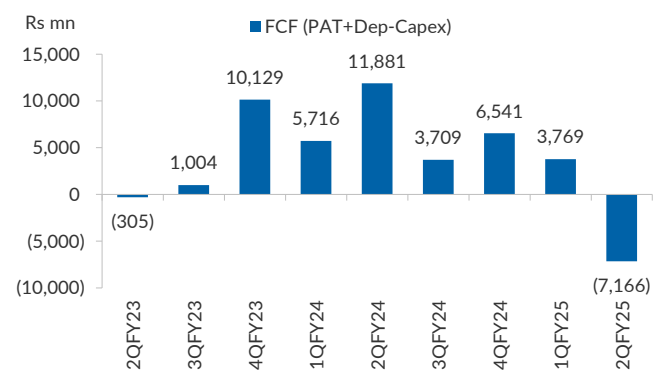
Source: Company, YES Sec

Exhibit 10: Net debt



Source: Company, YES Sec

Exhibit 11: FCF changes



Source: Company, YES Sec

VIEW & VALUATION

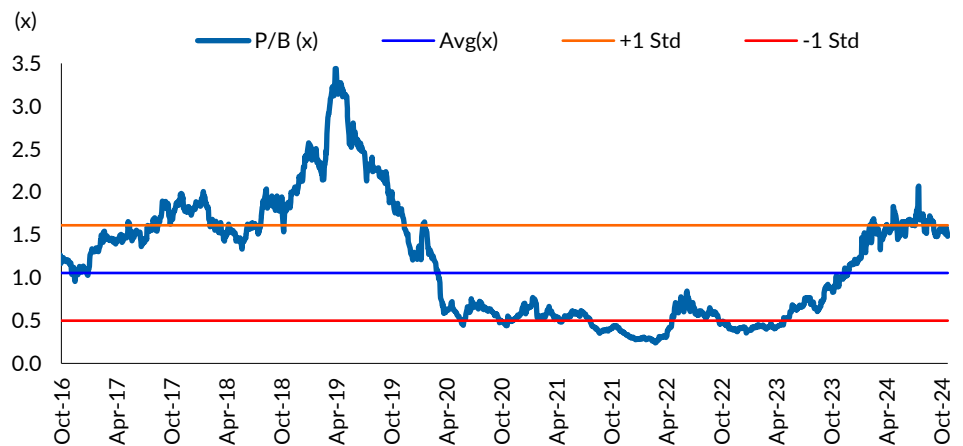
BUY with a TP of Rs 1100/sh.

High GRM sensitivity: a USD1/bbl change in GRM changes EBITDA by Rs 7.7bn. Declared dividend of Rs 55/share in FY24 (6.3% dividend yield), 0.5/3.6/2.5% FY25e/26e/27e, would be key for shareholders. The BV/share for FY25e/26e/27e: Rs 587/666/714, debt on books is towards working capital requirements. At CMP, the stock trades at 10.4x/3.7x/5x FY25e/26e/27e EV/EBITDA and 1.5x/1.3x/1.2x P/BV. We maintain BUY rating, with a revised 12-mth TP of Rs1,100, valuing the stock at 7.4x FY27e EV/EBITDA.

Exhibit 12: Valuation table

EV/EBITDA	FY27E
Multiple	7.4
EBITDA	23,927
Debt	34,159
Cash	20,809
EV	177,062
Equity value	163,712
No of shares	149
VPS	1,100

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	FY27E
Revenue	433,754	767,347	663,854	558,504	530,686	519,540
Total Expense	406,436	710,375	619,099	546,824	498,995	495,613
Operating Profit	27,317	56,972	44,755	11,680	31,692	23,927
Other Income	162	151	133	146	189	246
Depreciation	5,039	5,735	6,056	6,159	6,721	7,251
EBIT	22,441	51,389	38,832	5,667	25,160	16,922
Interest	4,124	3,302	2,233	2,791	3,040	3,040
Extraordinary Item	-	-	-	-	-	-
PBT	18,316	48,087	36,599	2,876	22,120	13,882
Tax	4,892	10,686	8,989	724	5,568	3,494
PAT	13,424	37,401	27,610	2,152	16,552	10,388
Adj. PAT	13,424	35,338	27,113	2,152	16,552	10,388
Eps	90.1	237.3	182.1	14.5	111.2	69.8

Exhibit 15: Balance sheet

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E	FY27E
Equity capital	1,489	1,489	1,489	1,489	1,489	1,489
Reserves	26,413	61,321	84,441	85,959	97,746	104,858
Net worth	27,902	62,810	85,930	87,449	99,235	106,347
Debt	92,383	42,596	27,859	34,159	34,159	34,159
Deferred tax liab (net)	5,631	7,646	8,143	8,143	8,143	8,143
Capital Employed	125,917	113,051	121,932	129,751	141,538	148,649
Fixed assets	81,762	79,680	77,161	81,009	84,374	87,209
Investments	119	120	120	120	120	120
Net working capital	44,035	33,252	44,651	48,622	57,044	61,321
Inventories	75,326	59,736	78,309	69,188	60,278	59,790
Sundry debtors	2,523	2,987	4,616	3,213	3,053	2,989
Cash & Bank Balance	120	86	943	341	16,511	20,809
Other current assets	12,989	15,812	19,886	19,699	19,649	19,630
Sundry creditors	32,401	30,071	42,825	27,543	26,171	25,621
Other liabilities	14,523	15,297	16,276	16,276	16,276	16,276
Application of Funds	125,917	113,051	121,932	129,751	141,538	148,649

Exhibit 16: Cash flow statement

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E	FY27E
PBT	18,316	48,081	36,599	2,876	22,120	13,882
Depreciation & amortization	5,022	5,726	6,050	6,159	6,721	7,251
Interest expense	(177)	3,302	2,233	2,791	3,040	3,040
(Inc)/Dec in working capital	(237)	(151)	(132)	-	-	-
Tax paid	(17,218)	8,541	(8,824)	(4,572)	7,748	21
Less: Interest/Dividend Income Received	204	10,074	9,185	(724)	(5,568)	(3,494)
Other operating Cash Flow	4,348	(18,082)	(18,168)	-	-	-
Cash flow from operating activities	10,259	57,490	26,943	6,529	34,062	20,701
Capital expenditure	(6,997)	(4,178)	(6,027)	(10,007)	(10,086)	(10,086)
Inc/(Dec) in investments	237	151	132	-	-	-
Add: Interest/Dividend Income Received	2	1	3	-	-	-
Cash flow from investing activities	(6,759)	(4,025)	(5,892)	(10,007)	(10,086)	(10,086)
Inc/(Dec) in share capital				-	-	-
Inc/(Dec) in debt	(62)	(48,886)	(14,814)	6,300	-	-
Interest Paid	(3,367)	(4,352)	(2,227)	(2,791)	(3,040)	(3,040)
Dividend Paid		(298)	(4,021)	(633)	(4,765)	(3,276)
Others	-	-	-	-	-	-
Cash flow from financing activities	(3,428)	(53,536)	(21,061)	2,876	(7,805)	(6,316)
Net cash flow	72	(71)	(11)	(602)	16,171	4,299

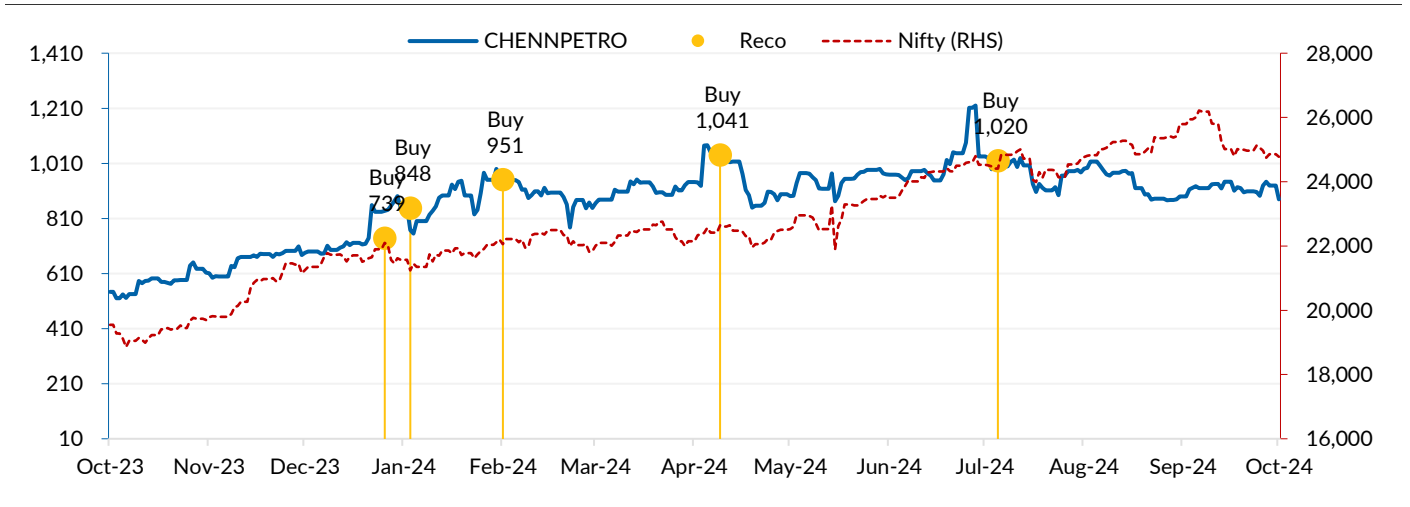
Exhibit 17: Du-pont analysis

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E	FY27E
Tax burden (x)	0.7	0.8	0.8	0.7	0.7	0.7
Interest burden (x)	0.8	0.9	0.9	0.5	0.9	0.8
EBIT margin (x)	0.1	0.1	0.1	0.0	0.0	0.0
Asset turnover (x)	2.8	4.6	3.9	3.2	3.0	2.8
Financial leverage (x)	7.4	3.7	2.3	2.0	1.9	1.8
RoE (%)	63.7	82.5	37.1	2.5	17.7	10.1

Exhibit 18: Ratio analysis

Y/e 31 Mar	FY22	FY23	FY24	FY25E	FY26E	FY27E
Growth matrix (%)						
Revenue growth	93.3	76.9	(13.5)	(15.9)	(5.0)	(2.1)
Op profit growth	35.9	108.6	(21.4)	(73.9)	171.3	(24.5)
EBIT growth	35.9	129.0	(24.4)	(85.4)	344.0	(32.7)
Net profit growth	50.2	178.6	(26.2)	(92.2)	669.1	(37.2)
Profitability ratios (%)						
OPM	6.3	7.4	6.7	2.1	6.0	4.6
EBIT margin	5.2	6.7	5.8	1.0	4.7	3.3
Net profit margin	3.1	4.9	4.2	0.4	3.1	2.0
RoCE	19.3	43.0	33.1	4.5	18.5	11.7
RoE	63.7	82.5	37.1	2.5	17.7	10.1
RoA	8.6	22.6	16.3	1.2	9.3	5.5
Per share ratios						
EPS	90.1	237.3	182.1	14.5	111.2	69.8
Dividend per share	2.0	27.0	55.0	4.3	32.0	22.0
Cash EPS	124.0	289.7	226.1	55.8	156.3	118.5
Book value per share	187.4	421.8	577.1	587.3	666.4	714.2
Valuation ratios						
P/E	1.4	1.0	4.8	60.8	7.9	12.6
P/CEPS	1.0	0.8	3.9	15.7	5.6	7.4
P/B	0.7	0.6	1.5	1.5	1.3	1.2
EV/EBIDTA	4.4	1.8	2.5	10.4	3.7	5.0
Payout (%)						
Dividend payout	2.2	11.4	30.2	29.4	28.8	31.5
Tax payout	26.7	26.5	25.9	25.2	25.2	25.2
Liquidity ratios						
Debtor days	1.90	1.31	2.09	2.10	2.10	2.10
Inventory days	54.9	36.7	41.7	48.0	46.0	46.0
Creditor days	21.6	14.9	20.0	18.0	18.0	18.0

Recommendation Tracker



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