

January 22, 2024

RESULT REPORT Q3 FY24 | Sector: Energy

Chennai Petroleum Corp Ltd

Weak core performance on narrowing of Russian crude discounts

Our View

Chennai Petroleum's Q3 FY24 core performance was weak, with an EBITDA of Rs 7.1bn; USD6.2/bbl of reported GRM (our est. USD8.5) on narrowing Russian crude discounts. As per our calculations, there is an inventory gain which could be at USD0.3/bbl due to higher quantity of crude sourced in Aug'23 which was cheaper and had higher discounts. As per our calculations, the RTP reduction of USD2/bbl impacted the core GRMs, otherwise the core GRMs could be at USD 7.9/bbl. We maintain BUY rating, with a revised 12-mth TP of Rs1,030 (Rs1,040 earlier).

Result Highlights

- EBITDA/PAT at Rs bn 7.1/3.9 (up 64%/172% YoY and down 61%/67% QoQ). The performance is lower than our expectation on weaker core GRMs. The reported GRM was USD6.2/bbl (USD12.1 the quarter prior, USD5.7 a year ago). The assumed core GRM at USD5.9/bbl (USD8.1 in Q2FY24, USD9.7 in Q3FY23) was at a premium of USD0.5 to the benchmark of USD5.4. As per our calculations, the RTP reduction of USD2/bbl impacted the core GRMs, otherwise the core GRMs could be at USD 7.9/bbl. As per our calculation, we understand that there were marginal Inventory gains of USD0.3/bbl (Rs0.97bn) which added to the profitability. Higher quantity of crude sourced in Aug'23 which was cheaper and had higher discounts, was there in the system which resulted in inventory gains versus our expectation of an inventory loss.
- Refinery throughput was 2.83mmt at ~107% utilization (115% in the prior quarter, 98.4% a year ago) was lower as it was impacted 5 days by floods in Dec'23. At USD2.5/bbl opex, it was lower than the trailing 12-quarter average of USD2.9.
- Sequentially, the debt increased by Rs13.6bn to Rs47.9bn (vs peak of Rs104bn) despite strong cashflow generation. There was a portion of advance payments for Q2 which were made in Q1 which has now normalized to working capital requirements. The FCF at Rs3.7bn was lower. The capex was Rs1.7bn (Rs 4.52bn in 9MFY24), per PPAC vs FY24 target of Rs 5bn.
- 9MFY24 performance:** EBITDA at Rs 34.6bn (vs Rs 40.6bn previous period last year) while PAT at Rs 21.3bn (vs Rs 25.3bn previous period last year) and the reported GRM at USD8.98/bbl (vs USD11.7). The FCF is at Rs 21.3bn (vs Rs 24.9bn in the previous period last year).

Valuation

High GRM sensitivity: a USD1/bbl change in GRM changes EBITDA by Rs 6.9bn. Expected dividend of Rs 25/share in FY24 (2.9% yield), 3.3/2.6% FY25e/26e, would be key for shareholders. The BV/share for FY25e/26e: Rs 704/792, debt on books is towards working capital requirements. At CMP, the stock trades at 3.8x/4.2x FY25e/26e EV/EBITDA and 1.2x/1.1x P/BV. We maintain BUY rating, with a revised 12-mth TP of Rs1,030 (Rs1,040 earlier), valuing the stock at 1.3x FY26e P/BV.

Exhibit 1: Actual vs estimate

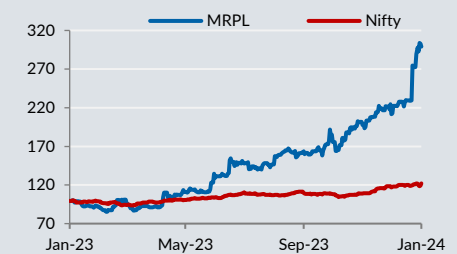
Rs mn	Actual	Estimate		% Variation		Remarks
		YES Sec	Consensus	YES Sec	Consensus	
Sales	173,759	173,587	199,444	0.10%	-12.88%	Below estimates on lower than estimated GRMs
EBITDA	7,085	11,142	5,504	-36.41%	28.72%	
EBITDA Margin (%)	4.08%	6.42%	2.76%	-234bps	132bps	
Adjusted PAT	3,889	6,717	2,434	-42.10%	59.78%	

Reco	: BUY
CMP	: Rs 848
Target Price	: Rs 1030
Potential Return	: +21.5%

Stock data (as on Jan 20, 2024)

Nifty	21,572
52 Week h/l (Rs)	908 / 223
Market cap (Rs/USD mn)	132695 / 1602
Outstanding Shares (mn)	149
6m Avg t/o (Rs mn):	1,020
Div yield (%):	3.2
Bloomberg code:	MRL IN
NSE code:	CHENNPETRO

Stock performance



	1M	3M	1Y
Absolute return	25.2%	56.0%	273.3%

Shareholding pattern (As of Dec '23 end)

Promoter	67.3%
FII+DII	15.9%
Others	16.8%

Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	1030	1040

Δ in estimates

(1-Yr)	FY24e	FY25e	FY26e
EPS (New)	190.7	145.4	110.0
EPS (Old)	213.1	145.4	110.0
% Change	-10.5	-0.0	-0.0

Financial Summary

(Rs bn)	FY24E	FY25E	FY26E
Revenue	607.9	564.1	515.6
YoY Growth	(20.8)	(7.2)	(8.6)
EBIDTA	45.5	36.8	30.2
OPM %	7.5	6.5	5.9
PAT	28.4	21.7	16.4
YoY Growth	(19.7)	(23.7)	(24.3)
ROE	32.5	20.6	13.9
EPS	190.7	145.4	110.0
P/E	4.4	5.8	7.7
BV	587.5	704.9	792.9
EV/EBITDA	2.6	3.2	3.9

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Exhibit 2: Earnings snapshot

Particulars (Rs mn)	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	y/y (%)	q/q (%)	9M FY23	9M FY24	y/y (%)
Revenue	160,544	180,089	147,448	165,446	173,759	8.2	5.0	587,258	486,653	(17.1)
Expenditure	156,225	163,822	137,950	147,401	166,674	6.7	13.1	546,620	452,025	(17.3)
-Raw Material	150,960	157,382	133,640	142,415	162,226	7.5	13.9	528,051	438,281	(17.0)
-Staff Cost	1,306	1,663	1,453	1,358	1,323	1.2	(2.6)	3,967	4,133	4.2
- Other Expenses	3,959	4,778	2,856	3,629	3,126	(21.0)	(13.9)	14,601	9,611	(34.2)
Operating Profit	4,319	16,267	9,498	18,044	7,085	64.0	(60.7)	40,638	34,627	(14.8)
OPM(%)	2.7	9.0	6.4	10.9	4.1	291 bps	-236 bps	6.9	7.1	20 bps
Other Income	42	18	22	51	25	(40.8)	(51.7)	201	98	(51.3)
Depreciation	1,414	1,567	1,473	1,566	1,510	6.8	(3.5)	4,168	4,549	9.1
Interest	1,084	841	572	651	500	(53.9)	(23.3)	2,461	1,723	(30.0)
Excpnl Loss/(Profit)	-	-	-	-	-	n.a.	n.a.	-	-	n.a.
PBT	1,863	13,876	7,474	15,879	5,100	173.8	(67.9)	34,211	28,453	(16.8)
Tax	433	3,835	1,991	3,973	1,211	179.5	(69.5)	8,914	7,175	(19.5)
PAT	1,430	10,042	5,483	11,906	3,889	172.1	(67.3)	25,296	21,278	(15.9)
Adj PAT	1,430	10,042	5,483	11,906	3,889	172.1	(67.3)	25,296	21,278	(15.9)

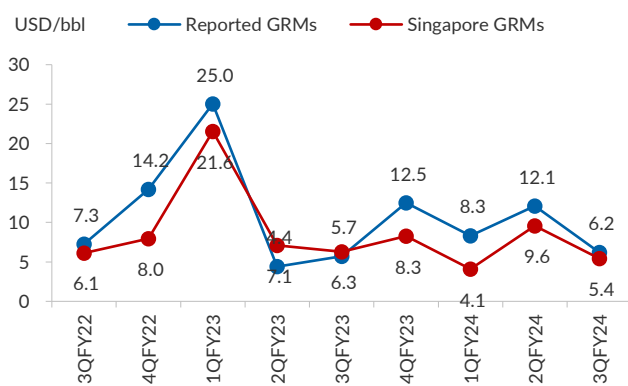
Exhibit 3: Operating highlights

Particulars	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	y/y (%)	q/q (%)	9M FY23	9M FY24	y/y (%)
Refining Throughput (mmt)	2.6	3.0	2.7	3.0	2.8	8.6	(7.2)	8.4	8.6	2.3
Capacity Utilization (%)	98.4	111.5	102.3	115.2	106.9	8.6	(7.2)	105.7	108.1	2.2
GRMs (US\$/bbl)										
Reported GRMs	5.7	12.5	8.3	12.1	6.2	8.8	(48.8)	11.9	9.0	(24.7)
Inv gains/ (loss)	(4.0)	(1.0)	(2.7)	4.0	0.3	(107.5)	(92.5)	(1.6)	0.7	(143.8)
Core GRMs	9.7	13.5	11.0	8.1	5.9	(39.2)	(27.2)	13.5	8.3	(38.6)
Duties Adjusted Core GRMs										-
Singapore GRMs	6.3	8.3	4.1	9.6	5.4	(13.9)	(43.2)	11.8	6.5	(45.2)
Export duty - RTP Reduction										-
Rs bn	14.0	7.0	-	5.7	3.6	(74.3)	(36.8)	33.1	9.3	(71.9)
US\$/bbl	7.9	3.8	-	3.0	2.0	(74.2)	(32.4)	6.3	1.7	(72.1)
Debt Position (Rs mn)	71,416	42,082	58,732	34,280	47,867	(33.0)	39.6	74,630	34,280	(54.1)
Capex (Rs mn)	1,840	1,480	1,240	1,590	1,690	(8.2)	6.3	4,610	4,520	(2.0)
Forex Gains/(losses) (Rs mn)	(935)	276	(66)	(439)	(59)	(93.7)	(86.5)	(5,510)	(563)	(89.8)
FCF (PAT+Dep-Capex) (Rs mn)	1,004	10,129	5,716	11,881	3,709	269.5	(68.8)	24,854	21,307	(14.3)

Key result highlights:

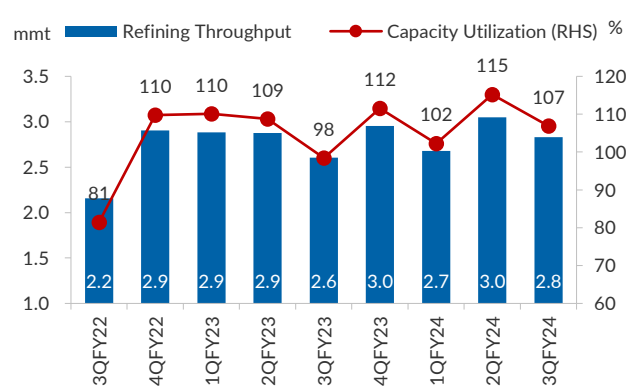
- **EBITDA/PAT** at Rs bn 7.1/3.9 (up 64%/172% YoY and down 61%/67% QoQ). The performance is lower than our expectation on weaker core GRMs.
- CPCL's Q3FY23 reported GRM was USD6.2/bbl (USD12.1 the quarter prior, USD5.7 a year ago) while the Arab heavy-light difference was USD2.1/bbl (same in the prior quarter).
- The assumed **core GRM** at USD5.9/bbl (USD8.1 in Q2FY24, USD9.7 in Q3FY23) was at a premium of just USD0.5 to the benchmark of USD5.4. As per our calculations, the **RTP reduction** of USD2/bbl impacted the core GRMs, otherwise the core GRMs could be at USD 7.9/bbl. The GRMs were weaker on minor changes to slate and lower Russian discounts. The cracks for major products: gasoil USD20.4/bbl, ATF USD23.5 and gasoline at USD7.2.
- As per our calculation, we understand that there were marginal **Inventory gains** of USD0.3/bbl (Rs0.97bn) which added to the profitability. Higher quantity of crude sourced in Aug'23 which was cheaper and had higher discounts, was there in the system which resulted in inventor gains versus our expectation of an inventory loss.
- **Refinery throughput** was 2.83mmt at ~107% utilization (115% in the prior quarter, 98.4% a year ago) was lower as it was impacted 5 days by floods in Dec'23.
- At USD2.5/bbl **opex**, it was lower than the trailing 12-quarter average of USD2.9.
- **Forex impact:** At Rs59mn of forex loss marginally impacted the profitability.
- Sequentially, the **debt increased** by Rs13.6bn to Rs47.9bn (vs peak of Rs104bn) despite strong cashflow generation. There was a portion of advance payments for Q2 which were made in Q1 which has now normalized to working capital requirements. The FCF at Rs3.7bn was lower.
- **Capex** was Rs1.7bn (Rs 4.52bn in 9MFY24), per PPAC vs FY24 target of Rs 5bn.
- **Crude Sourcing mix:** Indigenous contributed 15%, 15% Saudi, 25% Iraq, Russia 30%, and rest 15% on Spot. The Russian crude discounts were lower 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%.
- **9MFY24 performance:** EBITDA at Rs 34.6bn (vs Rs 40.6bn previous period last year) while PAT at Rs 21.3bn (vs Rs 25.3bn previous period last year) and the reported GRM at USD8.98/bbl (vs USD11.7). The FCF is at Rs 21.3bn (vs Rs 24.9bn in the previous period last year).

Exhibit 4: GRM



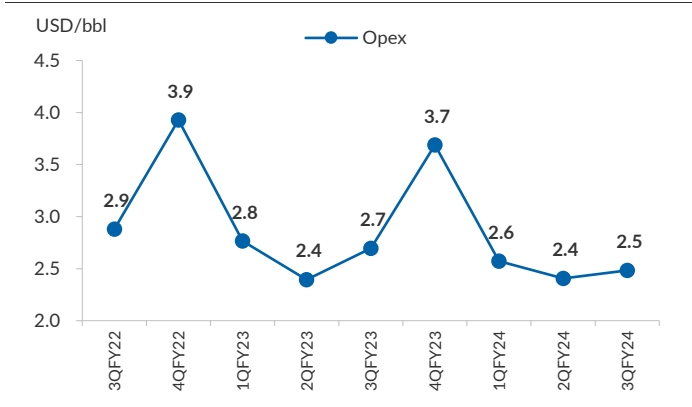
Source: PPAC, Company, YES Sec

Exhibit 5: Throughput



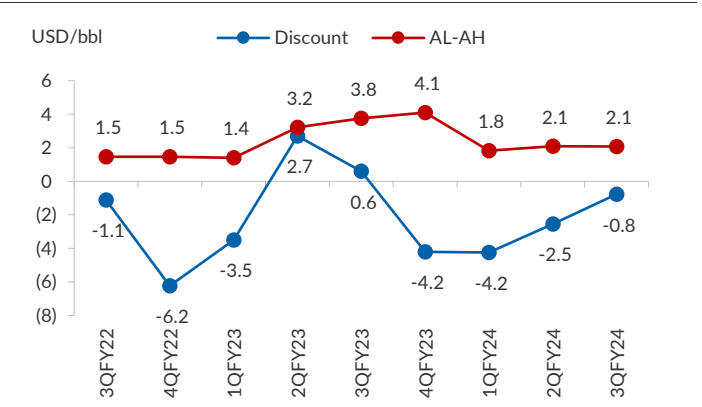
Source: PPAC, Company, YES Sec

Exhibit 6: Refining Opex



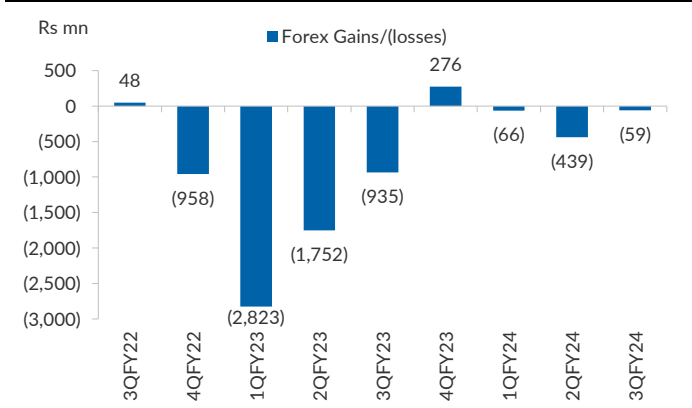
Source: Bloomberg, YES Sec

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



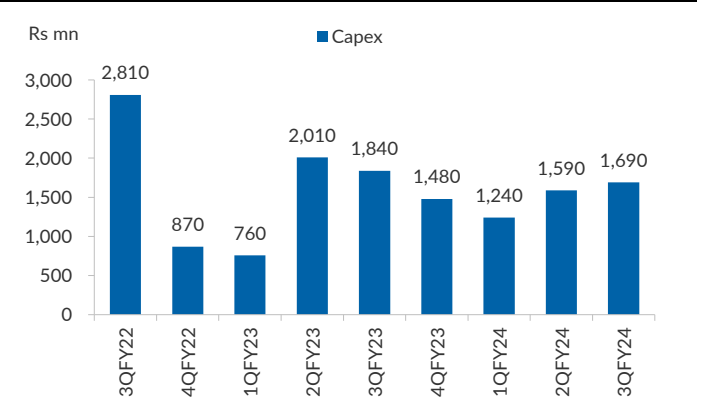
Source: Bloomberg, YES Sec

Exhibit 8: Forex gains / (losses)



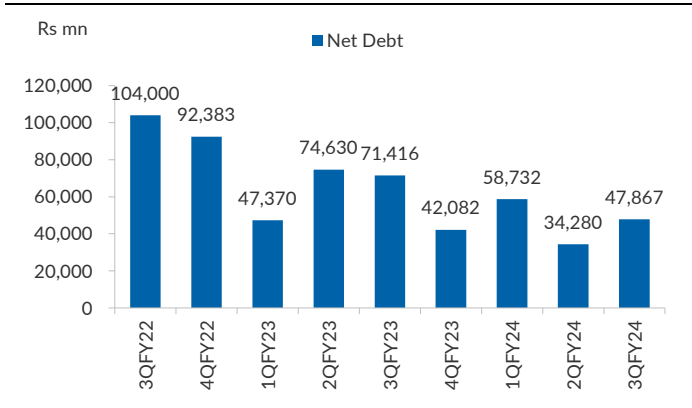
Source: Bloomberg, YES Sec

Exhibit 9: Capex



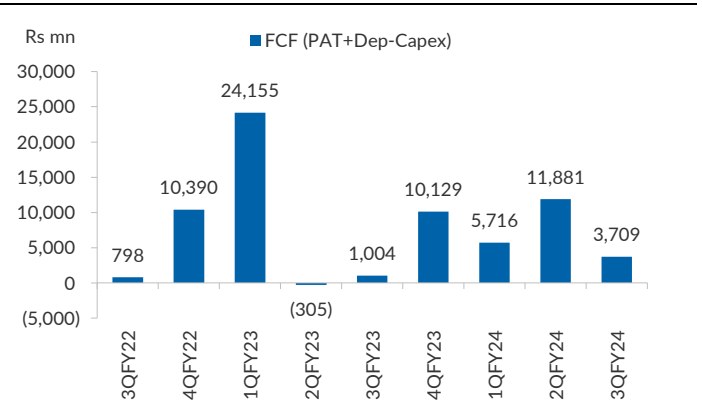
Source: Bloomberg, YES Sec

Exhibit 10: Net debt



Source: Bloomberg, YES Sec

Exhibit 11: FCF changes



Source: Bloomberg, YES Sec

VIEW & VALUATION

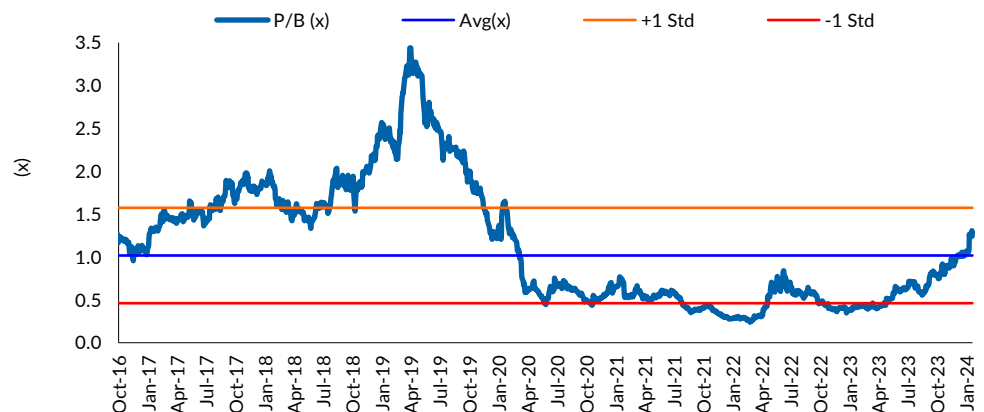
BUY with a TP of Rs 1030/sh.

The GRM sensitivity for the stock is high: a USD1/bbl change in GRM changes EBITDA by Rs 6.9bn. Expected dividend of Rs 25/share in FY24 (2.9% yield), 3.3/2.6% FY25e/26e, would be key for shareholders. The BV/share for FY25e/26e: Rs 704/792, debt on books is towards working capital requirements. At CMP, the stock trades at 3.8x/4.2x FY25e/26e EV/EBITDA and 1.2x/1.1x P/BV. We maintain BUY rating, with a revised 12-mth TP of Rs1,030 (Rs1,040 earlier), valuing the stock at 1.3x FY26e P/BV.

Exhibit 12: Valuation table

EV/EBITDA	FY26E
Multiple	5.1
EBITDA	30,240
Debt	42,596
Cash	41,935
EV	154,045
Equity value	153,384
No of shares	149
VPS	1030
P/BV	
BV	792
Multiple	1.30
VPS	1030

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



FINANCIALS

Exhibit 14: Income statement

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	433,754	767,347	607,912	564,093	515,607
Total Expense	406,436	710,375	562,461	527,298	485,367
Operating Profit	27,317	56,972	45,451	36,795	30,240
Other Income	162	151	166	183	201
Depreciation	5,039	5,735	5,971	6,339	6,842
EBIT	22,441	51,389	39,647	30,639	23,599
Interest	4,124	3,302	1,704	1,704	1,704
Extraordinary Item	-	-	-	-	-
PBT	18,316	48,087	37,943	28,935	21,896
Tax	4,892	12,749	9,550	7,283	5,511
PAT	13,424	35,338	28,393	21,652	16,384
Adj. PAT	13,424	35,338	28,393	21,652	16,384
Eps	90.1	237.3	190.7	145.4	110.0

Exhibit 15: Balance sheet

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Equity capital	1,489	1,489	1,489	1,489	1,489
Reserves	26,413	61,321	85,990	103,472	116,581
Net worth	27,902	62,810	87,479	104,961	118,070
Debt	92,383	42,596	42,596	42,596	42,596
Deferred tax liab (net)	5,631	7,646	7,646	7,646	7,646
Capital Employed	125,917	113,051	137,721	155,203	168,311
Fixed assets	81,762	79,680	82,481	85,242	88,498
Investments	119	120	120	120	120
Net working capital	44,035	33,252	55,120	69,842	79,694
Inventories	75,326	59,736	66,934	62,516	57,321
Sundry debtors	2,523	2,987	3,331	3,091	2,825
Cash & Bank Balance	120	86	11,179	28,691	41,935
Other current assets	12,989	15,812	15,621	15,569	15,511
Sundry creditors	32,401	30,071	26,648	24,727	22,602
Other liabilities	14,523	15,297	15,297	15,297	15,297
Application of Funds	125,917	113,051	137,721	155,203	168,311

Exhibit 16: Cash flow statement

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
PBT	18,316	48,087	37,943	28,935	21,896
Depreciation & amortization	5,039	5,735	5,971	6,339	6,842
Interest expense	3,863	3,230	1,704	1,704	1,704
(Inc)/Dec in working capital	(17,218)	10,848	(10,775)	2,790	3,393
Tax paid	(204)	(10,074)	(9,550)	(7,283)	(5,511)
Less: Interest/Dividend Income Received	(59)	(79)			
Other operating Cash Flow	521	(257)			
Cash flow from operating activities	10,259	57,490	25,292	32,484	28,323
Capital expenditure	(6,995)	(4,176)	(8,772)	(9,099)	(10,099)
Inc/(Dec) in investments	-	(0)	-	-	-
Add: Interest/Dividend Income Received	237	151	-	-	-
Cash flow from investing activities	(6,759)	(4,025)	(8,772)	(9,099)	(10,099)
Inc/(Dec) in share capital	7,750	-	-	-	-
Inc/(Dec) in debt	(7,812)	(48,886)	-	-	-
Dividend Paid	-	(298)	(3,723)	(4,170)	(3,276)
Others	(3,367)	(4,352)	(1,704)	(1,704)	(1,704)
Cash flow from financing activities	(3,428)	(53,536)	(5,427)	(5,873)	(4,980)
Net cash flow	71.8	(71.0)	11,093	17,512	13,244

Exhibit 17: Du-pont analysis

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Tax burden (x)	0.7	0.7	0.7	0.7	0.7
Interest burden (x)	0.8	0.9	1.0	0.9	0.9
EBIT margin (x)	0.1	0.1	0.1	0.1	0.0
Asset turnover (x)	2.8	4.6	3.6	3.0	2.6
Financial leverage (x)	7.4	3.7	2.2	1.9	1.8
RoE (%)	63.7	77.9	37.8	22.5	14.7

Exhibit 18: Ratio analysis

Y/e 31 Mar	FY22	FY23	FY24E	FY25E	FY26E
Growth matrix (%)					
Revenue growth	93.3	76.9	(20.8)	(7.2)	(8.6)
Op profit growth	35.9	108.6	(20.2)	(19.0)	(17.8)
EBIT growth	35.9	129.0	(22.8)	(22.7)	(23.0)
Net profit growth	50.2	163.2	(19.7)	(23.7)	(24.3)
Profitability ratios (%)					
OPM	6.3	7.4	7.5	6.5	5.9
EBIT margin	5.2	6.7	6.5	5.4	4.6
Net profit margin	3.1	4.6	4.7	3.8	3.2
RoCE	17.8	45.5	28.8	19.7	14.0
RoE	48.1	56.3	32.5	20.6	13.9
RoA	8.6	21.3	16.8	11.6	8.2
Per share ratios					
EPS	90.1	237.3	190.7	145.4	110.0
Dividend per share	2.0	27.0	25.0	28.0	22.0
Cash EPS	124.0	275.8	230.8	188.0	156.0
Book value per share	187.4	421.8	587.5	704.9	792.9
Valuation ratios					
P/E	1.4	1.0	4.4	5.8	7.7
P/CEPS	1.0	0.9	3.7	4.5	5.4
P/B	0.7	0.6	1.4	1.2	1.1
EV/EBIDTA	4.4	1.8	2.6	3.2	3.9
Payout (%)					
Dividend payout	2.2	11.4	13.1	19.3	20.0
Tax payout	26.7	26.5	25.2	25.2	25.2
Liquidity ratios					
Debtor days	1.90	1.31	2.00	2.00	2.00
Inventory days	54.9	36.7	45.0	45.0	45.0
Creditor days	21.6	14.9	16.0	16.0	16.0

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