

Chennai Petroleum Corporation Ltd.



Chennai Petroleum Corporation Ltd.

Bottom-line impacted because of Fx loss against Fx gain in Q4FY17

CMP INR 297	Target INR 456	Potential Upside 53.5%	Market Cap (INR Mn) 44,063	Recommendation BUY	Sector Oil & Gas
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Result highlights

Chennai Petro reported revenue of INR 97.9 bln (+43.4% YoY, +14% QoQ) because of higher crude prices. Crude throughput was up by 2.5% QoQ and 34.9% YoY to 2.813 MMT. Gross margins were impacted by 280 bps YoY and 480 bps QoQ to 8.4% owing to higher crude oil prices. Fall in the gross margins (-280 bps YoY and 480 bps QoQ) was largely negated by fall in the employee cost (-126 bps YoY) and other expenses (-137 bps YoY) resulting into stability into the operational performance to some extent on a YoY basis, however the same has been cut back to an extent on a QoQ basis leading to an EBITDA of INR 4.3 bln (+38.1% YoY, -48.2% QoQ). Foreign exchange losses for the quarter came in at INR 774 mln as against forex gains of INR 652 mln which dented the net profit growth to a mere 4.3% YoY. Gross Refining Margin for the quarter stood at \$5.76/bbl with the average GRM for the year at \$6.42/bbl. Throughput came in at 2.813 MMT as against 2.744 MMT in Q3FY18 and 2.086 MMT in Q4FY17. The Board has recommended a final dividend of 185% on the Paid-up share capital of face value INR 10/- i.e. INR 18.5 per share.

MARKET DATA

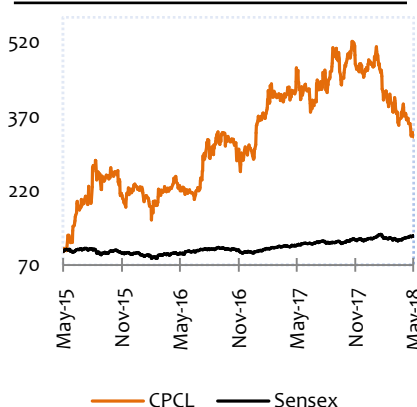
Shares outs (Mn)	148
Equity Cap (INR Mn)	1489
Mkt Cap (INR Mn)	44063
52 Wk H/L (INR)	477/283
Volume Avg (3m K)	623.6
Face Value (INR)	10
Bloomberg Code	MRL IN

KEY FINANCIALS

Particulars (INR Mn)	FY16	FY17	FY18	FY19E	FY20E
Revenue from Operations	2,58,456	2,76,914	3,25,280	3,47,036	4,14,945
EBITDA	13,476	19,376	20,855	25,701	30,731
PAT	7,615	11,198	9,316	11,338	14,120
EPS Diluted (Rs.)	51.14	75.20	62.56	76.14	94.82
OPM (%)	5.21%	7.00%	6.41%	7.41%	7.41%
NPM (%)	2.95%	4.04%	2.86%	3.27%	3.40%
P/E (x)	5.81	3.95	4.75	3.90	3.14

Source: Company, KRChoksey Research

SHARE PRICE PERFORMANCE



Newly commissioned Resid Upgradation project could boost GRMs over next few quarters

The quarter marked the commissioning of CPCL's resid upgradation project at its 10.5 MMTPA Manali Refinery and CPCL's move to shift to cleaner products. The delayed coking process would aid in reducing the production of low-value fuel oil and upgrading the residue to fuels of higher value such as diesel, naphtha and LPG. The project will help to increase the percentage of processing of cheaper high sulphur crude oil processing in crude mix thus reducing feedstock costs. The company expects an overall increase of 700 TMT of LPG and Diesel on an annual basis thus boosting CPCL's profitability as well as catering to the much-needed petroleum products to meet the energy needs of Tamil Nadu. The distillate yield of the Manali refinery can be expected to improve from ~71% to ~77% and the use of high sulphur crude to 83% (from the current 65%). We further expect to see an incremental GRM of ~\$1-2/bbl over FY19/20E.

Refining capacity expansion plans to improve earnings performance

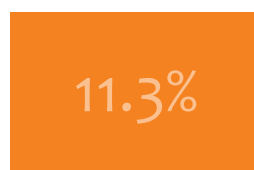
The company has proposed setting up of the company's third refinery at the Cauvery Basin Refinery, at Narimanam, in Nagapattinam district in Tamil Nadu. The proposed refinery will have a capacity of 9 MMTPA and the estimated cost is INR 27,400 crore which would be funded with a mix of debt and equity. A detailed feasibility report will be carried out after which the final approval for the project will be obtained. CPCL already has over 600 acres of land, oil jetty and a port nearby and is in talks with the state govt to acquire an additional 600 acres of land to set up the refinery. The project is expected to go on floors only after FY20.

MARKET INFO

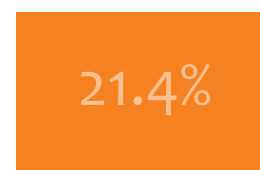
SENSEX	35536
NIFTY	10807

SHARE HOLDING PATTERN (%)

Particulars	Mar 18	Dec 17	Sep 17
Promoters	67.29	67.29	67.29
FIIs	10.67	11.82	10.96
DIIIs	10.66	10.11	10.59
Others	11.38	10.8	11.16
Total	100	100	100



Revenue CAGR between FY 18 and FY 20E



EBITDA between FY 18 and FY 20E

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Development of pipeline from Chennai Port to Manali refinery to improve efficiency

CPCL's other projects also includes setting up of a 42-inch crude oil pipeline by replacing its 30-inch pipeline which was more than 45 years old. The 17 km pipeline which has been set up at an estimated cost of INR 258 crore will stretch from Chennai Port to its Manali refinery and is now nearing completion and can be expected to be operational by the next quarter. The pipeline is expected to serve as the backbone of the refinery it has been designed with more carrying capacity thus improving the efficiency.

Valuation & Outlook:

CPCL has one of the more complex PSU refineries in the country and will benefit from higher distillate yield, crude mix, and product swings in a scenario of large spreads between light and heavy crude. Also, the company's coastal location enables easier access to crude and its status as the only refinery in Tamil Nadu ensures sufficient demand.

The long term prospects of the company remain strong with potential GRM upside due to the resid upgradation project, increasing utilization of refinery capacities and potential higher crude throughput from the upcoming pipeline project. We believe CPCL will pick up pace in terms of operational efficiency as it has the ability to refine higher sulphur crude leading to improved GRMs over FY19E/20E. We have revised our estimates to factor low gross margins primarily on account of minimal price pass on of rising crude due to upcoming centre elections next year. We expect revenues to grow at a CAGR of 11.32% over FY18-20E and EBITDA to grow at a CAGR of 21.4% over FY18-20E. **We valued the company by assigning a P/E multiple of 6x on the FY19E EPS of INR 76.1 and arrived at a target price of INR 456 (potential upside – 53.5%). We maintain our BUY rating on the stock.**

KEY METRICS QUARTERLY PERFORMANCE

Particulars	UoM	Q4FY18	Q3FY18	Q4FY17	Q-o-Q (%)	Y-o-Y (%)
Throughput	MMT	2.813	2.744	2.086	2.51%	34.85%
GRM	USD/bbl	5.76	8.58	6.77	-32.87%	-14.92%

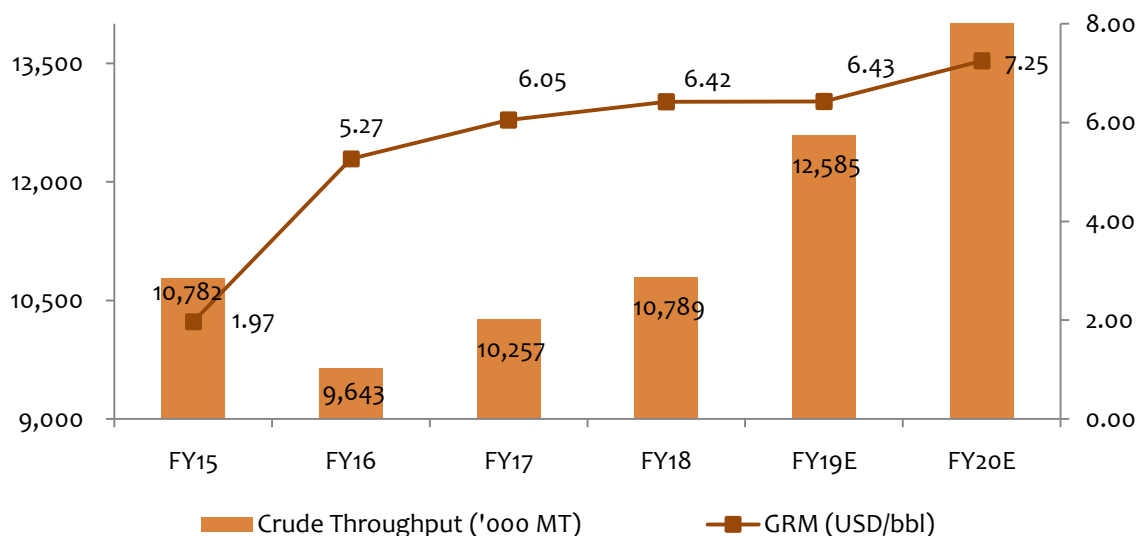
Source: Company, KRChoksey Research

KEY MODEL ASSUMPTIONS for FY19E/FY20E

Particulars		FY15	FY16	FY17	FY18	FY19E	FY20E
Throughput	MMTPA	10.782	9.643	10.257	10.789	12.585	14.4
GRM	USD/bbl	1.97	5.27	6.05	6.42	6.43	7.25
Oil Price	USD/bbl	84.4	44.0	56.0	57.8	68.3	72.8
USD/INR		61.0	64.3	66.0	60.7	64.0	66.0

Source: Company, KRChoksey Research

Year wise crude throughput and GRM



Source: Company, KRChoksey Research

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QUARTERLY PERFORMANCE – INCOME STATEMENT

(INR Million)	Q4FY18	Q3FY18	Q4FY17	Q-o-Q (%)	Y-o-Y (%)
Revenue from operations	97,881	85,872	68,279	14.0%	43.4%
Cost of Materials Consumed	87,966	77,208	57,493	13.9%	53.0%
Purchases of Stock-in-trade	1,271	1,210	596	5.0%	113.1%
(Increase)/Decrease in inventories of FG, WIP and SIT	404	-3,912	2,531	-110.3%	-84.0%
Cost of Goods Sold (COGS)	89,640	74,506	60,621	20.3%	47.9%
Gross Profit	8,240	11,366	7,658	-27.5%	7.6%
Gross Profit Margin (%)	8.4%	13.2%	11.2%	-481.72	-279.70
Employee benefit expense	1,953	1,234	2,223	58.2%	-12.1%
Other expenses	1,962	1,789	2,304	9.7%	-14.9%
Total Operating Expenditure	3,915	3,023	4,527	29.5%	-13.5%
EBITDA	4,325	8,343	3,131	-48.2%	38.1%
EBITDA Margin (%)	4.4%	9.7%	4.6%	-529.66	-16.72
Depreciation and Amortization Expense	1,107	851	780	30.2%	42.0%
EBIT	3,218	7,492	2,352	-57.1%	36.8%
Other Income	90	124	155	-27.7%	-42.1%
Finance Cost	787	1,017	752	-22.6%	4.6%
Foreign Exchange gain/(loss)	-774	615	652	-225.8%	-218.6%
Profit before Tax (PBT)	1,747	7,215	2,407	-75.8%	-27.4%
Tax Expense	-37	3,346	81	-101.1%	-145.9%
Profit after Tax (PAT)*	1,784	3,869	2,326	-53.9%	-23.3%
Net Profit Margin (%)	1.8%	4.5%	3.4%	-268.30	-158.41

Source: Company, KRChoksey Research

*The Profit after Tax has been adjusted after excluding for impairment of non-current assets that had incurred in FY17 and FY18.

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INCOME STATEMENT

Particulars (INR Million)	FY16	FY17	FY18	FY19E	FY20E
Revenue from Operations	2,58,456	2,76,914	3,25,280	3,47,036	4,14,945
Cost of material consumed	2,27,540	2,42,558	2,93,135	3,03,835	3,63,290
Purchase of stock-in-trade	2,927	1,596	4,006	4,152	4,965
Changes in inventories of FG, SIT & WIP	2,084	1,055	-6,067	0	0
Employee benefit expenses	3,570	5,129	5,818	6,030	7,210
Other expenses	8,858	7,201	7,533	7,318	8,750
Total Operating Expense	2,44,980	2,57,538	3,04,425	3,21,335	3,84,215
EBITDA	13,476	19,376	20,855	25,701	30,731
EBITDA Margin (%)	5.2%	7.0%	6.4%	7.4%	7.4%
Depreciation	2,737	2,786	3,402	3,473	3,954
EBIT	10,739	16,589	17,453	22,229	26,777
Finance Cost	3,517	2,728	3,209	3,209	3,209
Other Income	305	341	328	743	1,045
Profit before Tax (PBT)	7,527	14,203	14,573	19,763	24,613
Share of profit of equity-accounted investees	256	276	195	0	0
Profit before Tax (PBT)	7,783	14,479	14,769	19,763	24,613
Total Tax expense	168	3,281	5,453	8,425	10,493
Profit after Tax (PAT)	7,615	11,198	9,316	11,338	14,120
PAT Margin (%)	2.9%	4.0%	2.9%	3.3%	3.4%
EPS Basic (INR)	51.14	75.20	62.56	76.14	94.82

Source: Company, KRChoksey Research

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BALANCE SHEET

Particulars (INR Million)	FY16	FY17	FY18	FY19E	FY20E
EQUITY AND LIABILITIES					
Equity					
Share capital	1,490	1,490	1,490	1,490	1,490
Reserves and surplus	23,198	32,921	37,075	44,930	55,568
Total Equity	24,689	34,411	38,565	46,420	57,058
Non-current liabilities					
Long term borrowings	20,033	23,243	8,259	8,259	8,259
Long term provisions	510	1,331	2,326	2,482	2,967
Deferred tax liabilities (net)	0	243	2,062	2,062	2,062
Other non-current liabilities	309	404	61	61	61
Total non-current liabilities	20,852	25,221	12,708	12,863	13,349
Current Liabilities					
Short Term Borrowings	25,605	31,734	20,630	20,630	20,630
Short term provisions	740	1,366	878	937	1,120
Other Current liabilities	32,505	23,497	68,875	62,727	70,975
Total current liabilities	58,851	56,597	90,382	84,294	92,725
SOURCES OF FUNDS	1,04,391	1,16,229	1,41,655	1,43,577	1,63,132
ASSETS					
Non-current assets					
Net Block	57,985	66,454	73,233	79,761	90,807
Investment in Joint Ventures	1,194	1,399	118	118	118
Financial Assets	825	805	828	828	828
Other non-current Assets	923	975	596	628	728
Total non-current assets	60,927	69,633	74,775	81,335	92,481
Current Assets					
Inventories	31,753	32,071	47,592	42,785	50,021
Other Financial Assets	8,153	10,718	16,190	15,496	15,910
Cash and Bank balances	389	169	87	750	879
Other current assets	3,170	3,638	3,010	3,212	3,840
Total current assets	43,464	46,596	66,880	62,243	70,651
APPLICATION OF FUNDS	1,04,391	1,16,229	1,41,655	1,43,577	1,63,132

Source: Company, KRChoksey Research

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CASH FLOW STATEMENT

Particulars (INR Million)	FY16	FY17	FY18	FY19E	FY20E
Profit before Tax (PBT)	7,783	13,861	14,769	19,763	24,613
Operating profit before working capital changes	13,662	19,796	21,527	26,444	31,776
Net Cash generated from/(used in) operating activities	22,924	5,968	43,504	17,354	21,820
Net Cash Used In Investing Activities	-11,416	-11,693	-10,181	-10,000	-15,000
Net Cash Used in Financing Activities	-11,518	5,506	-33,405	-6,691	-6,691
Net Increase/(Decrease) in Cash and Cash Equivalents	-10	-219	-82	663	129
Cash and Cash Equivalents at the beginning of the year	399	389	169	87	750
Cash and Cash Equivalents at the end of the year	389	169	87	750	879

Source: Company, KRChoksey Research

RATIOS

Particulars	FY16	FY17	FY18	FY19E	FY20E
Profitability					
Return on Assets (%)	7.3%	9.6%	6.6%	7.9%	8.7%
Return on Capital Employed(%)	15.3%	18.6%	25.9%	29.5%	31.2%
Return on Equity (%)	30.8%	32.5%	24.2%	24.4%	24.7%
Margin Trend					
EBITDA Margin (%)	5.2%	7.0%	6.4%	7.4%	7.4%
Net Margin (%)	2.9%	4.0%	2.9%	3.3%	3.4%
Liquidity					
Current Ratio	0.7	0.8	0.7	0.7	0.8
Quick Ratio	0.1	0.2	0.2	0.2	0.2
Debtor Days	11	14	18	16	14
Inventory Days	45	42	53	45	44
Payable Days	35	22	50	40	40
Cash Conversion Cycle	21	34	21	21	18
Solvency					
Total Debt / Equity	1.8	1.6	0.7	0.6	0.5
Interest Coverage	3.8	7.1	6.5	8.0	9.6
Valuation Ratios					
EV/EBITDA	6.64	5.11	3.50	2.82	2.35
P/E	5.81	3.95	4.75	3.90	3.14
P/B	1.79	1.29	1.15	0.95	0.78

Source: Company, KRChoksey Research

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Chennai Petroleum Corporation Ltd.				Rating Legend	
Date	CMP (INR)	TP (INR)	Recommendation	Our Rating	Upside
14-May-18	297	456	BUY	Buy	More than 15%
22-Jan-18	426	510	BUY	Accumulate	5% – 15%
10-Nov-17	429	500	BUY	Hold	0 – 5%
07-Sep-16	305	370	BUY	Reduce	-5% – 0
24-Mar-16	203	369	BUY	Sell	Less than – 5%
04-Mar-16	187	323	BUY		
16-Nov-15	190	327	BUY		

ANALYST CERTIFICATION:

We, Dhavan Shah [B.Com, MS(Finance)], research analyst, Raghav Garg (B.Com, M.Com (Applied Finance)), research analyst and Neha Raichura (CFA Level III Cleared, M.Com), research associate, author and the name subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect my views about the subject issuer(s) or securities. I also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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