

Result Update

Stock Details

Market cap (Rs mn)	:	47145
52-wk Hi/Lo (Rs)	:	481 / 262
Face Value (Rs)	:	10
3M Avg. daily volume	:	678,573
Shares o/s (m)	:	149

Source: Bloomberg

Financial Summary

Y/E Mar (Rs mn)	FY18	FY19E	FY20E
Revenue	441,892	497,721	525,987
Growth (%)	8.8%	12.6%	5.7%
EBITDA	21,184	21,260	22,180
EBITDA margin (%)	4.8%	4.3%	4.2%
PAT	9,272	9,555	10,086
EPS	62.3	64.2	67.7
EPS Growth (%)	-12%	3%	6%
BV (Rs/share)	268	310	353
Dividend/share (Rs)	18.5	18.7	19.5
ROE (%)	24.9	22.2	20.4
ROCE (%)	15.5	16.8	16.2
P/E (x)	5.1	4.9	4.7
EV/EBITDA (x)	3.1	3.2	2.9
P/BV (x)	1.2	1.0	0.9

Source: Company

Shareholding Pattern (%)

(%)	Jun-18	Mar-18	Dec-17
Promoters	67.3	67.3	67.3
FII	9.0	10.6	11.8
DII	11.6	10.7	10.1
Others	12.1	11.4	10.8

Source: Company

Price Performance (%)

(%)	1M	3M	6M
Chennai Pet	4.1	(1.4)	(24.1)
Nifty	5.6	5.4	2.4

Source: Bloomberg

Price chart (Rs)



Source: Bloomberg

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CHENNAI PETROLEUM CORPORATION LTD

PRICE Rs.317

TARGET Rs.373

BUY

Despite ~5% qoq rupee depreciation and significant jump in GRMs, CPCL's revenue decreased marginally due to decline in crude throughput. Operating profit jumped meaningfully due to lower operating cost. Recently commissioned project will improve the earnings in FY19E and weaker currency will be further positive. Major capex plans lined up will boost its long term profitability, we opine.

Key Highlights

- CPCL's Q1FY19 results is broadly in line with our estimates. The company has reported a PAT of Rs.1.56 bn against our expectation of Rs.1.53 bn.
- CPCL reported significantly higher GRMs of US\$7.11/bbl as against US\$5.8/bbl in Q4FY18 partly due to inventory gain, we opine.
- In FY19, the company will be investing Rs. 10 bn out of the total investment planned of Rs.25.4bn on its ongoing projects which will improve reliability, profitability and meet product quality specification.

Valuation & outlook

We expect CPCL to report an EPS of Rs.64.2/share in FY19E and an EPS of Rs.67.7 in FY20E supported by better distillate yields, weaker INR/USD and higher crude through put. At CMP, we believe that the stock is attractively valued at a PE of 4.7x FY20E earnings. We maintain BUY recommendation on the stock with an unchanged price target of Rs.373/share. We have valued CPCL based on PE multiple of 5.5x FY20 (target PE), which is at a significant discount to its peers.

Quarterly performance table

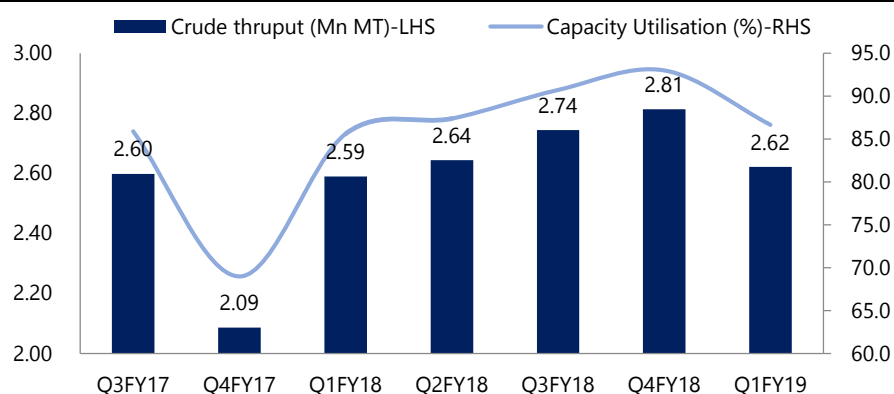
Particulars (Rs Mn)	Q1FY19	Q4FY18	Q1FY18	YoY (%)	QoQ (%)
Net Sales	123,558	127,101	96,494	28	(3)
Incr/(Decr) in stock	5,581	(404)	4,155		
Total Expenditure	124,666	123,145	98,696	26	1
EBIDTA	4,473	3,551	1,953	129	26
Depreciation	1,036	1,107	714	45	(6)
EBIT	3,437	2,444	1,239	7	41
Other income	81	90	73	10	(10)
Interest-net	984	787	747	32	25
PBT	2,533	1,747	566	348	45
Extra ordinary Exp/(Inc)	0	3	2		
Tax	972	(37)	229		
PAT	1,561	1,781	335	366	(12)
Basic EPS	10.48	11.97	2.3		

Source: Company.

Quarterly result analysis – Q1FY19

- Revenue growth:** Despite ~5% qoq rupee depreciation and significant jump in GRMs, CPCL's net revenue decreased 3% qoq to Rs.124 bn due to 7% qoq decline in crude throughput.
- Crude throughput:** CPCL reported sequentially lower crude throughput of 2.62 mmt, -7% qoq, resulting in 87% capacity utilization.

CPCL's crude throughput and capacity utilization



Source: Company

- **Refining margins:** CPCL reported significantly higher GRMs of US\$7.11/bbl as against US\$5.8/bbl in Q4FY18 partly due to inventory gain, we opine.
- **Raw material cost including purchases of finished goods:** Raw material cost increased 2% qoq to Rs.91.4 bn (38% yoy) mainly due to meaningful increase in crude oil prices. In Q1FY19, Crude oil price increased by 12% qoq to US\$ 71.7/bbls.
- **Employee cost:** Staff cost has decreased 34% qoq to Rs.1.3 bn (-12% yoy). Employee cost to sales ratio (%) has decreased 50 bps to 1.0%. We believe staff cost is within acceptable range.
- **Other expenses:** CPCL's other expenditure decreased marginally by 3% qoq to Rs.1.9 bn (+21% yoy). Operating cost per unit has decreased meaningfully to US\$2.46/bbl (16% qoq decline). We expect it to come down, going ahead.
- **Operating profit:** CPCL reported higher EBIDTA profit of Rs.4.5 bn in Q1FY19 as against Rs.3.6 bn in Q4FY18 on account of higher refining margins and lower operating cost.
- **Interest cost:** CPCL's interest cost has increased by 25% qoq and 32% yoy to Rs.984 mn (includes preference dividend). As on 31st Mar'18, the gross debt stands lower at Rs.18.9 bn (short term and long term) as against Rs.44.98 bn as on 31st Mar'17.
- Preference Shares are treated as financial liability as per Ind AS 32, as these are redeemable on maturity for a fixed determinable amount and carry fixed rate of dividend. Correspondingly, in line with the requirements of Ind AS 32, proportionate preference dividend including dividend distribution tax thereon, has been provisionally accrued as finance cost for Q1FY19. However, as per the Companies Act 2013, the preference shares are treated as part of share capital and the provisions of the Act relating to declaration of Preference Dividend at the end of the year would be applicable.
- **Depreciation:** In Q1FY19, depreciation cost decreased 6% yoy to Rs. 1.0 bn (+45% qoq).
- **Other income:** In Q1FY19, other income has decreased meaningfully 10% qoq to Rs.81 mn (+10% qoq) party due to higher interest and dividend income earned in Q4FY18.
- **PAT:** Despite 45% qoq jump in PBT, CPCL's PAT declined 12% qoq to Rs.1.56 bn mainly on account of tax paid at a higher rate (38.38% of PBT).

Key Developments

- **Future Projects:** CPCL is currently implementing a number of projects to improve reliability, profitability and to meet product quality specifications. The total cost of these projects which are under implementation is estimated to be Rs.25.4 bn.
- With the completion of the new crude oil pipeline project, the BS-VI Project is likely to be completed in FY20.
- Re-Gasified Liquefied Natural Gas (RLNG) project is scheduled to be completed in phases from Nov 2018 onwards.
- CPCL is also planning to set up a 9 mmtpa refinery at Cauvery Basin, Nagapattinam at an estimated cost of Rs.274.5 bn (plus or minus 30%). In principle approval has been obtained for this project. The proposed new project will play an important role in meeting future energy needs of Tamilnadu State. Preparation of detailed feasibility report is underway and is expected to be completed by March 2019.

Maintain BUY

We expect CPCL to report an EPS of Rs.64.2/share in FY19E and an EPS of Rs.67.7 in FY20E supported by better distillate yields, weaker INR/USD and higher crude throughput. At CMP, we believe that the stock is attractively valued at a PE of 4.7x FY20E earnings. We maintain BUY recommendation on the stock with a unchanged price target of Rs.373/share. We have valued CPCL based on PE multiple of 5.5x FY20 (target PE), which is at a significant discount to its peers.

Valuation

Particulars	Unit	FY20E	Unit
EPS (FY20E)			Rs./share
			67.7
Target – P/E			Multiple (x)
			5.5
Target price (Rs/share)			Rs. Mn
			373
CMP			Rs. Mn
			317
Potential upside/(downside)			%
			18

Source: Kotak Securities - Private Client Research

Key Risk and Concerns

- Wide fluctuations in crude, forex and product prices can impact the margins.
- If global fuel supply exceeds demand then margins can be under pressure and vice-versa.
- Any delay in executing the project can significantly impact the valuations.
- Large outlay for new projects exposes CPCL to significant project implementation risks

Company background

Incorporated in 1965, Chennai Petroleum Corporation Limited (CPCL), formerly known as Madras Refineries Limited (MRL) was formed as a joint venture between the Government of India (74%, GoI), AMOCO (13%) and National Iranian Oil Company (13% equity stake) In 1985, AMOCO sold its equity stake to GOI and the shareholding pattern of GOI and NIOC changed to 84.62% and 15.38% respectively. Later in 1992, GOI disinvested 16.92% of the paid up capital in favor of Unit Trust of India, Mutual Funds, Insurance Companies and Banks, thereby reducing its holding to 67.7 %. CPCL came out with a public issue in 1994 wherein GoI and NIOC divested part of their equity stakes and CPCL's shares were listed on stock exchanges. As a part of the restructuring steps taken up by the Government of India, Indian Oil Corporation Ltd. acquired equity from GoI in FY 2001. In July 2003, NIOC transferred their entire shareholding to Naftiran Inter trade Company Limited, an affiliate, in line with the formation agreement, as part of their organizational restructuring.

Financials: Consolidated

Profit and Loss Statement (Rs mn)

(Year-end March)	FY17	FY18	FY19E	FY20E
Revenues	406,074	441,892	497,721	525,987
% change YoY	16.2	8.8	12.6	5.7
EBITDA	19,717	21,184	21,260	22,180
% change YoY	49.1	7.4	0.4	4.3
Other Income	-277	285	370	391
Depreciation	2,786	3,402	4,163	4,315
EBIT	16,313	17,738	17,097	17,865
% change YoY	48.7	8.7	-3.6	4.5
Net interest	2,728	3,209	2,916	2,879
Profit before tax	13,585	14,530	14,181	14,986
% change YoY	NM	7.0	-2.4	5.7
Tax	3,353	5,453	4,822	5,095
as % of PBT	24.7	37.5	34.0	34.0
Profit after tax	10,232	9,077	9,359	9,891
Minority interest	0	0	0	0
Share of profit of associates	276	195	195	195
Net income	10,508	9,272	9,555	10,086
% change YoY	36.4	-11.8	3.0	5.6
Shares outstanding (m)	149	149	149	149
EPS (reported) (Rs)	70.6	62.3	64.2	67.7
CEPS (Rs)	89.3	85.1	92.1	96.7
DPS (Rs)	21.0	18.5	18.7	19.5

Source: Company, Kotak Securities – Private Client Research

Balance sheet (Rs mn)

(Year-end March)	FY17	FY18	FY19E	FY20E
Cash and cash equivalents	169	87	55.0	50.0
Accounts receivable	10,397	15,695	16,363	17,293
Inventories	32,071	47,591	53,181	56,201
Loans and Adv & Others	5,738	4,928	4,967	4,989
Current assets	48,375	68,301	74,566	78,533
Misc exp.	0	0	0	0
LT investments	1,400	1,526	1,526	1,526
Net fixed assets	66,454	73,233	78,733	84,233
Total assets	116,229	143,060	154,825	164,292
Payables	16,522	44,437	50,311	54,592
Others	6,795	24,438	21,904	23,148
Current liabilities	23,316	68,875	72,215	77,740
Provisions	2,878	3,204	3,462	3,609
LT debt	54,978	28,890	30,833	28,221
Min. int and def tax liabilities	646	2,123	2,123	2,123
Equity	1,489	1,489	1,489	1,489
Reserves	32,921	38,480	44,703	51,110
Total liabilities	116,229	143,060	154,825	164,292
BVPS (Rs)	231	268	310	353

Source: Company, Kotak Securities – Private Client Research

Cash flow Statement (Rs mn)

(Year-end March)	FY17	FY18	FY19E	FY20E
EBIT	16,313	17,738	17,097	17,865
Depreciation	2,786	3,402	4,163	4,315
Change in working capital	(11,851)	27,628	(2,486)	1,700
Chgs in other net current assets				
Operating cash flow	7,248	48,768	18,774	23,880
Interest	(2,728)	(3,209)	(2,916)	(2,879)
Tax	(3,353)	(5,453)	(4,822)	(5,095)
CF from operations	1,167	40,106	11,036	15,906
Capex	(10,946)	(10,181)	(9,663)	(9,815)
(Inc)/dec in investments	(1,258)	(125)	-	-
CF from investments	(12,204)	(10,307)	(9,663)	(9,815)
Proceeds from issue of equity	4,965	-	-	0
Increase/(decrease) in debt	9,372	(26,088)	1,944	(2,612)
Proceeds from share premium	-	-	-	-
Dividends	(3,519)	(3,794)	(3,349)	(3,484)
CF from financing	10,818	(29,882)	(1,405)	(6,096)
Opening cash	388	169	87	55
Closing cash	169	87	55	50

Source: Company, Kotak Securities – Private Client Research

Ratio Analysis

(Year-end March)	FY17	FY18	FY19E	FY20E
EBITDA margin (%)	4.9	4.8	4.3	4.2
EBIT margin (%)	4.0	4.0	3.4	3.4
Net profit margin (%)	2.6	2.1	1.9	1.9
Receivables (days)	8.1	10.8	12.0	12.0
Inventory (days)	28.8	39.3	39.0	39.0
Sales/gross assets(x)	5.0	5.5	6.7	6.5
Interest coverage (x)	6.2	5.5	5.9	6.2
Debt/equity ratio(x)	1.6	0.7	0.7	0.5
ROE (%)	36.6	24.9	22.2	20.4
ROCE (%)	16.4	15.5	16.8	16.2
EV/ Sales	0.2	0.1	0.1	0.1
EV/EBITDA	4.7	3.1	3.2	2.9
Price to earnings (P/E)	4.5	5.1	4.9	4.7
Price to book value (P/B)	1.4	1.2	1.0	0.9

Source: Company, Kotak Securities – Private Client Research

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- BUY** – We expect the stock to deliver more than 12% returns over the next 12 months
- ACCUMULATE** – We expect the stock to deliver 5% - 12% returns over the next 12 months
- REDUCE** – We expect the stock to deliver 0% - 5% returns over the next 12 months
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