

Chennai Petroleum Corp Ltd

Higher final dividend payment a positive surprise (5%+ yield)

Our View

Chennai Petroleum's Q4 FY24 core performance was weaker than our expectations, with an EBITDA of Rs 10.4bn; USD7.7/bbl of reported GRM (our est. USD11.4) on narrowing Russian crude discounts. As per our calculations, there is an inventory loss which could be at USD0.6/bbl. As per our calculations, the core GRMs could be at USD 8.3/bbl. We maintain BUY rating, with a revised 12-mth TP of Rs1,450 (Rs1,498 earlier).

Result Highlights

- **EBITDA/PAT** at Rs bn 10.4/6.1 (down 36%/39% YoY and up 47%/58% QoQ). The performance is lower than our expectation on lower core GRMs. The **reported GRM** was USD 7.7/bbl (USD 6.2 the quarter prior, USD 12.5 a year ago). The assumed **core GRM** at USD 8.3/bbl (USD 5.9 in Q3FY24, USD 13.5 in Q4FY23) was at a premium of USD 1 to the benchmark of USD 7.3. As per our calculation, we understand that there was marginal **Inventory loss** of USD 0.6/bbl (Rs1.15bn) which impacted the profitability.
- **Refinery throughput** was 3.09mmt at ~117% utilization (107% in the prior quarter, 112% a year ago) was in line with our expectations. **Opex** at USD 2.4/bbl, it was lower than the trailing 12-quarter average of USD 2.9. A forex loss of Rs158mn marginally impacted the profitability.
- Sequentially, the **debt decreased** by Rs20.4bn to Rs27.5bn (vs peak of Rs104bn) on strong cashflow generation and stands at its lowest levels. The FCF at Rs6.5bn was higher QoQ. **Capex** for qtr was Rs1.1bn and Rs 5.6bn in FY24 vs PPAC target of Rs 5.5bn.
- **FY24 performance:** EBITDA at Rs 45bn (vs Rs 56.9bn last year) while PAT at Rs 27.4bn (vs Rs 35.3bn last year) and the reported GRM at USD 8.64/bbl (vs USD 11.91). The FCF is at Rs 27.9bn (vs Rs 35bn in the last year).

Valuation

High GRM sensitivity: a USD1/bbl change in GRM changes EBITDA by Rs 6.9bn. Declared dividend of Rs 55/share in FY24 (5.2% dividend yield), 3.6/3% FY25e/26e, would be key for shareholders. The BV/share for FY25e/26e: Rs 633/733, debt on books is towards working capital requirements. At CMP, the stock trades at 3.4x/3.8x FY25e/26e EV/EBITDA and 1.6x/1.4x P/BV. We maintain BUY rating, with a revised 12-mth TP of Rs1,450 (Rs1,498 earlier), valuing the stock at 7.4x FY26e EV/EBITDA.

Exhibit 1: Actual vs estimate

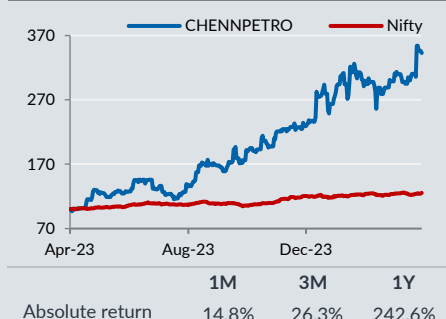
Rs mn	Actual	Estimate		% Variation		Remarks
		YES Sec	Consensus	YES Sec	Consensus	
Sales	173,759	179,924	186,747	-3.43%	-6.95%	Below estimates on lower than estimated GRMs
EBITDA	7,085	16,078	12,621	-55.93%	-43.86%	
EBITDA Margin (%)	4.08%	8.94%	6.76%	-486bps	-268bps	
Adjusted PAT	3,889	10,427	7,814	-62.70%	-50.23%	

Reco	: BUY
CMP	: Rs 1,041
Target Price	: Rs 1,450
Potential Return	: +39%

Stock data (as on April 29, 2024)

Nifty	22,643
52 Week h/l (Rs)	1123 / 256
Market cap (Rs/USD mn)	156603 / 1877
Outstanding Shares (mn)	149
6m Avg t/o (Rs mn):	1,235
Div yield (%):	3.0
Bloomberg code:	MRL IN
NSE code:	CHENNPETRO

Stock performance



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	1498

Δ in estimates

(1-Yr)	FY25e	FY26e
EPS (New)	123.5	101.0
EPS (Old)	145.4	110.0
% Change	-15.0	-8.2

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	(21.9)	(33.4)	(18.3)
ROE	32.1	18.6	13.8
EPS	182.1	123.5	101.0
P/E	5.9	8.7	10.6
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)	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24	y/y (%)	q/q (%)	FY23	FY24	y/y (%)
Revenue	180,089	147,448	165,446	173,759	177,202	(1.6)	2.0	767,347	663,854	(13.5)
Expenditure	163,822	137,950	147,401	166,674	166,785	1.8	0.1	710,442	618,810	(12.9)
-Raw Material	157,382	133,640	142,415	162,226	161,954	2.9	(0.2)	685,433	600,236	(12.4)
-Staff Cost	1,663	1,453	1,358	1,323	1,334	(19.8)	0.8	5,630	5,467	(2.9)
- Other Expenses	4,778	2,856	3,629	3,126	3,497	(26.8)	11.9	19,379	13,107	(32.4)
Operating Profit	16,267	9,498	18,044	7,085	10,417	(36.0)	47.0	56,905	45,044	(20.8)
OPM(%)	9.0	6.4	10.9	4.1	5.9	471 bps	-56 bps	7.4	6.8	-63 bps
Other Income	18	22	51	25	35	96.1	40.7	218	133	(39.3)
Depreciation	1,567	1,473	1,566	1,510	1,508	(3.8)	(0.2)	5,735	6,056	5.6
Interest	841	572	651	500	509	(39.5)	1.9	3,302	2,233	(32.4)
Excpnl Loss/(Profit)	-	-	-	-	-	n.a.	n.a.	-	-	n.a.
PBT	13,876	7,474	15,879	5,100	8,435	(39.2)	65.4	48,087	36,888	(23.3)
Tax	3,835	1,991	3,973	1,211	2,311	(39.7)	90.9	12,749	9,486	(25.6)
PAT	10,042	5,483	11,906	3,889	6,124	(39.0)	57.5	35,338	27,401	(22.5)
Adj PAT	10,042	5,483	11,906	3,889	6,124	(39.0)	57.5	35,338	27,401	(22.5)

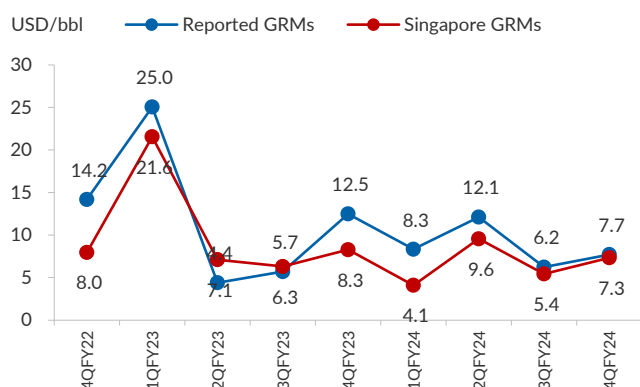
Exhibit 3: Operating highlights

Particulars	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24	y/y (%)	q/q (%)	FY23	FY24	y/y (%)
Refining Throughput (mmt)	3.0	2.7	3.0	2.8	3.1	4.6	9.1	11.3	11.6	2.9
Capacity Utilization (%)	111.5	102.3	115.2	106.9	116.6	4.6	9.1	107.2	110.3	2.9
GRMs (US\$/bbl)										
Reported GRMs	12.5	8.3	12.1	6.2	7.7	(38.3)	23.6	12.1	8.6	(28.4)
Inv gains/ (loss)	(1.0)	(2.7)	4.0	0.3	(0.6)	(40.0)	(281.8)	(1.4)	0.4	(124.9)
Core GRMs	13.5	11.0	8.1	5.9	8.3	(38.4)	40.7	13.5	8.2	(38.6)
Duties Adjusted Core GRMs										-
Singapore GRMs	8.3	4.1	9.6	5.4	7.3	(11.5)	35.0	10.9	6.7	(38.5)
Export duty - RTP Reduction										-
Rs bn	7.0	-	5.7	3.6	-	(100.0)	(100.0)	40.1	9.3	(76.8)
US\$/bbl	3.8	-	3.0	2.0	-	(100.0)	(100.0)	5.6	1.3	(77.2)
Debt Position (Rs mn)	42,082	58,732	34,280	47,867	27,497	(34.7)	(42.6)	42,082	27,497	(34.7)
Capex (Rs mn)	1,480	1,240	1,590	1,690	1,090	(26.4)	(35.5)	6,090	5,610	(7.9)
Forex Gains/(losses) (Rs mn)	276	(66)	(439)	(59)	(158)	(157.5)	168.5	(5,234)	(721)	(86.2)
FCF (PAT+Dep-Capex) (Rs mn)	10,129	5,716	11,881	3,709	6,541	(35.4)	76.3	34,983	27,848	(20.4)

Key result highlights:

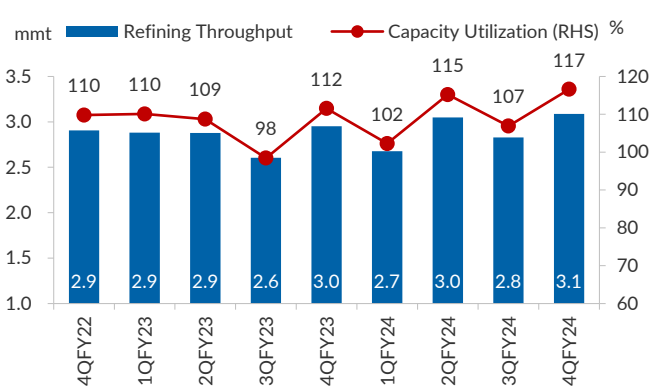
- **EBITDA/PAT** at Rs bn 10.4/6.1 (down 36%/39% YoY and up 47%/58% QoQ). The performance is lower than our expectation on lower core GRMs.
- CPCL's Q4FY24 **reported GRM** was USD 7.7/bbl (USD 6.2 the quarter prior, USD 12.48 a year ago) while the Arab heavy-light difference was USD 1.8/bbl (2.1 in the prior quarter).
- The assumed **core GRM** at USD 8.3/bbl (USD 5.9 in Q3FY24, USD 13.5 in Q4FY23) was at a premium of USD 1 to the benchmark of USD 7.3.
- As per our calculation, we understand that there was marginal **Inventory loss** of USD 0.6/bbl (Rs0.47bn) which impacted the profitability.
- **Refinery throughput** was 3.09mmt at ~117% utilization (107% in the prior quarter, 112% a year ago) was in line with our expectations.
- **Opex:** At USD 2.4/bbl opex, it was lower than the trailing 12-quarter average of USD 2.9.
- **Forex impact:** At Rs158mn of forex loss marginally impacted the profitability.
- Sequentially, the **debt decreased** by Rs20.4bn to Rs27.5bn (vs peak of Rs104bn) on strong cashflow generation and stands at its lowest levels. The FCF at Rs6.5bn was higher QoQ.
- **Capex** for qtr was Rs1.1bn and Rs 5.6bn in FY24 vs PPAC target of Rs 5.5bn.
- **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%.
- **FY24 performance:** EBITDA at Rs 45bn (vs Rs 56.9bn last year) while PAT at Rs 27.4bn (vs Rs 35.3bn last year) and the reported GRM at USD 8.64/bbl (vs USD 11.91). The FCF is at Rs 27.9bn (vs Rs 35bn in the last year).

Exhibit 4: GRM



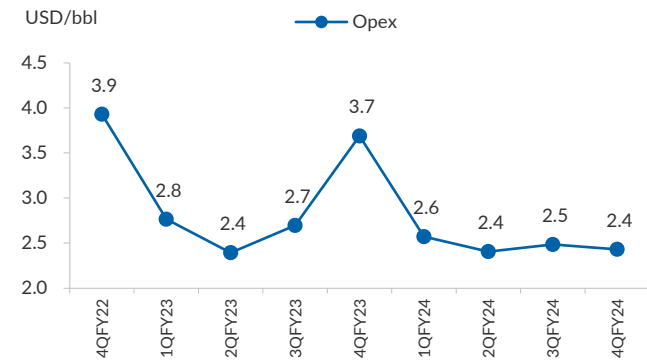
Source: PPAC, Company, YES Sec

Exhibit 5: Throughput



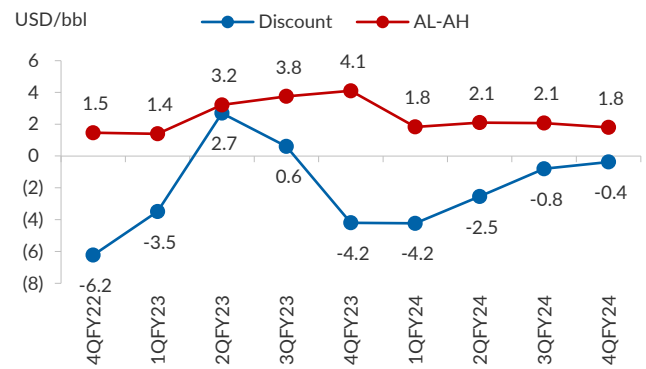
Source: PPAC, Company, YES Sec

Exhibit 6: Refining Opex



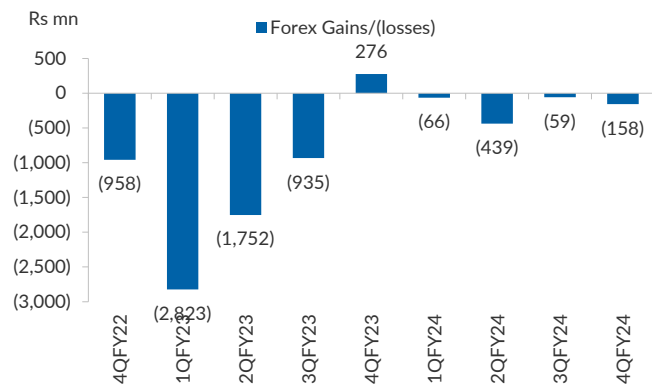
Source: Bloomberg, YES Sec

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



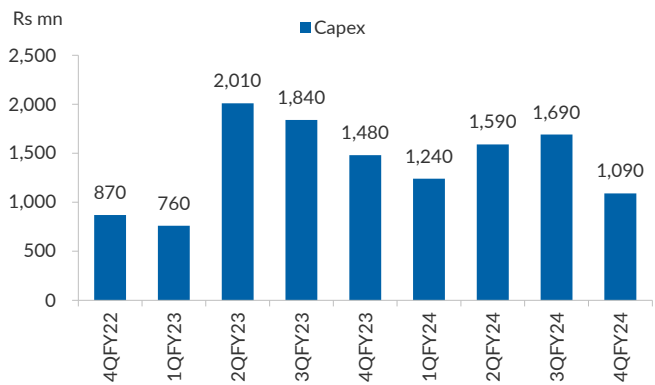
Source: Bloomberg, YES Sec

Exhibit 8: Forex gains / (losses)



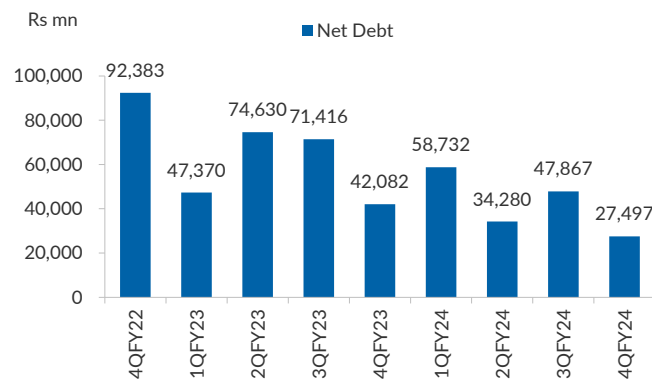
Source: Bloomberg, YES Sec

Exhibit 9: Capex



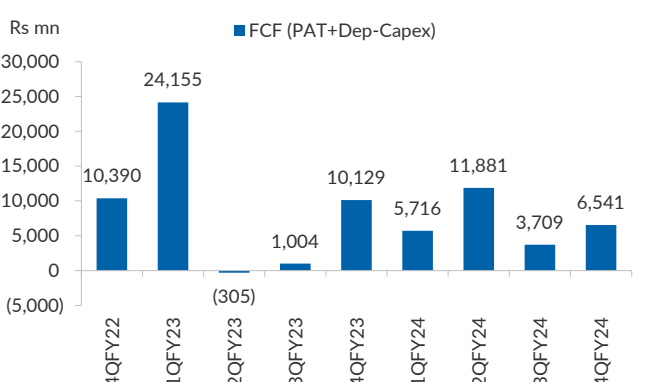
Source: Bloomberg, YES Sec

Exhibit 10: Net debt



Source: Bloomberg, YES Sec

Exhibit 11: FCF changes



Source: Bloomberg, YES Sec

CONCALL HIGHLIGHTS

- **Crude throughput:** During FY24, the company had a crude throughput of 11.64mmt at 111% utilization of installed capacity vs 11.3mtpa in FY23, this reflects the flexibility to scale to new heights and during robust cracks by taking up all the opportunities that are available. CPCL processed ~30% of Russian crude in Q4FY24, though lower discounts.
- **Outlook and view:** GRMs are a market play, depending on what margins are available in the international market. CPCL is committed to bring onboard value-added products, bring in energy efficiency, and flexibility, which is CPCL's unique selling proposition. CPCL hopes to take maximum advantage of these opportunities. It also aims to focus on optimizing operating costs and keep debt to a reasonable level.
- **Crude basket:** Flexible basket with above 50% long term agreement, and took advantage of spot depending on the price and the crude grade to capitalize on price economics. Middle East is ~47%, Indigenous ~13%, African ~10%, remaining 30% spot including Russian opportunity crude.
- **Product Cracks:** Product cracks - MS have shown some improvement, rising above USD 10/bbl after consistently staying below that level throughout FY23. Conversely, HSD cracks have declined. However, it's important to note that HSD cracks exhibited significant monthly fluctuations last year. Similar volatility is currently observed in the MS market, making it challenging to predict future crack spreads or GRM in this uncertain environment.
- **Inventory gain/loss:** Q4 FY24 had a loss of USD 0.59/bbl which translates to Rs 1.12bn vs a gain of USD 0.35/bbl in Q3. FY24 had an inventory gain of USD 0.43/bbl which translates to Rs 3bn.
- **Arab mix premium:** Premium stood at 1.81% in Q4FY24 vs 1.53% in Q4FY23 but down sequentially from 3.5% in Q3FY24. FY24 premium halved to 2.5% from 5.1% in FY23.
- **Windfall tax impact:** Full FY24 impact was at Rs 9bn (USD 1.5/bbl).
- **Maintenance:** Manali refinery expected to be shut for a month around Aug'24 for Maintenance.
- **Capex:** Capex guided at Rs 2-3bn for maintenance and rest for JV entity. CBRPL capex is Rs 30bn out of which Rs 10bn already spent and remaining Rs 20bn will be spent over the next 3 years. Currently evaluating more projects ranging from Rs 2-17bn, commitment to which will depend on future profitability. No plan to add a new crude unit rather more of value-add projects.
- **Debt levels:** The management expects to keep the debt balanced here onwards and might consider taking on more debt if they decide to go ahead with some high yield projects to take advantage of lower cost of capital.
- **Cauvery JV Refinery:** CPCL and the parent company (IOCL) has entered a joint venture for a 9mtpa refinery in Nagapattinam, having a capex of Rs 366.6bn, CPCL has 25% stake while debt is 1:2 so total equity is Rs 120bn of which CPCL has Rs 30bn investment. Out of this Rs 30bn, Rs 10bn has been spend so far remaining will be spent over next year or a portion of the year ahead. Physical progress ~9.8%, Additionally, land acquisition is complete, and revised cost estimates and capital structure have received approval from both boards. The project is currently in the final stages of securing industry approvals. Notably, the project timeline has been reduced from 45 months to 39 months from the date of receiving CCA approval. Govt incentives include discounted taxes and GST for petchem.
- **RLNG usage:** Processed highest ever RLNG during FY24, at 1.6x significantly high from its previous high. Despite the higher price, LNG usage has surpassed the new contract allowance, exceeding 2mmscmd This suggests economic benefit from LNG at times. However, the decision to use more LNG appears to be driven by the fluctuating market, with usage potentially increasing when the spot market price falls below the long-term contract price.

VIEW & VALUATION

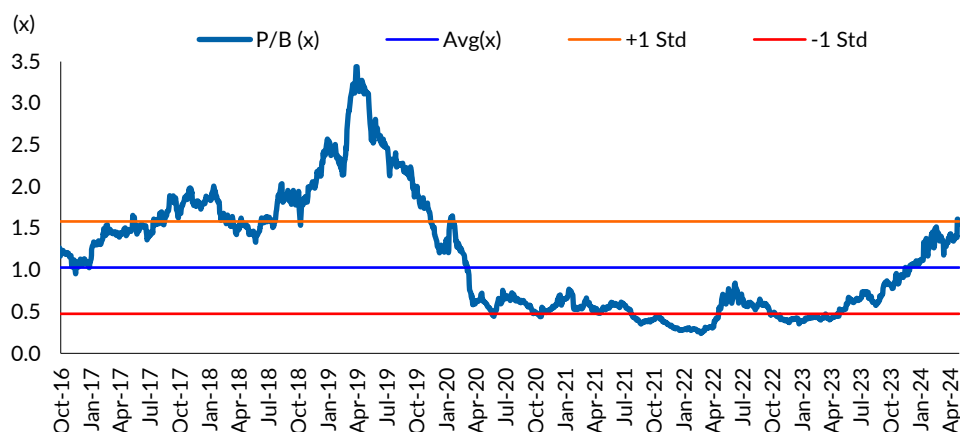
BUY with a TP of Rs 1450/sh.

The GRM sensitivity for the stock is high: a USD1/bbl change in GRM changes EBITDA by Rs 6.9bn. Declared dividend of Rs 55/share in FY24 (5.2% dividend yield), 3.6/3% FY25e/26e, would be key for shareholders. The BV/share for FY25e/26e: Rs 633/733, debt on books is towards working capital requirements. At CMP, the stock trades at 3.4x/3.8x FY25e/26e EV/EBITDA and 1.6x/1.4x P/BV. We maintain BUY rating, with a revised 12-mth TP of Rs1,450 (Rs1,498 earlier), 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	219,218
Equity value	215,534
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	81,279	84,684
Investments	119	120	120	120	120
Net working capital	44,035	33,252	44,651	58,418	65,433
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	18,788	29,175
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	6,023	6,190	6,693
Interest expense	3,863	3,230	2,129	2,768	2,996
(Inc)/Dec in working capital	(17,218)	10,848	(8,824)	4,078	3,373
Tax paid	(204)	(10,074)	(9,185)	(6,187)	(5,058)
Less: Interest/Dividend Income Received	(59)	(79)	(28)		
Other operating Cash Flow	521	(257)	229		
Cash flow from operating activities	10,259	57,490	26,943	31,431	28,099
Capital expenditure	(6,995)	(4,176)	(6,024)	(10,307)	(10,099)
Inc/(Dec) in investments	-	(0)	-	-	-
Add: Interest/Dividend Income Received	237	151	132	-	-
Cash flow from investing activities	(6,759)	(4,025)	(5,892)	(10,307)	(10,099)
Inc/(Dec) in share capital	7,750	-	-	-	-
Inc/(Dec) in debt	(7,812)	(48,886)	(14,814)	5,000	-
Dividend Paid	-	(298)	(4,021)	(5,510)	(4,616)
Others	(3,367)	(4,352)	(1,360)	(2,768)	(2,996)
Cash flow from financing activities	(3,428)	(53,536)	(20,194)	(3,278)	(7,613)
Net cash flow	71.8	(71)	856	17,845	10,388

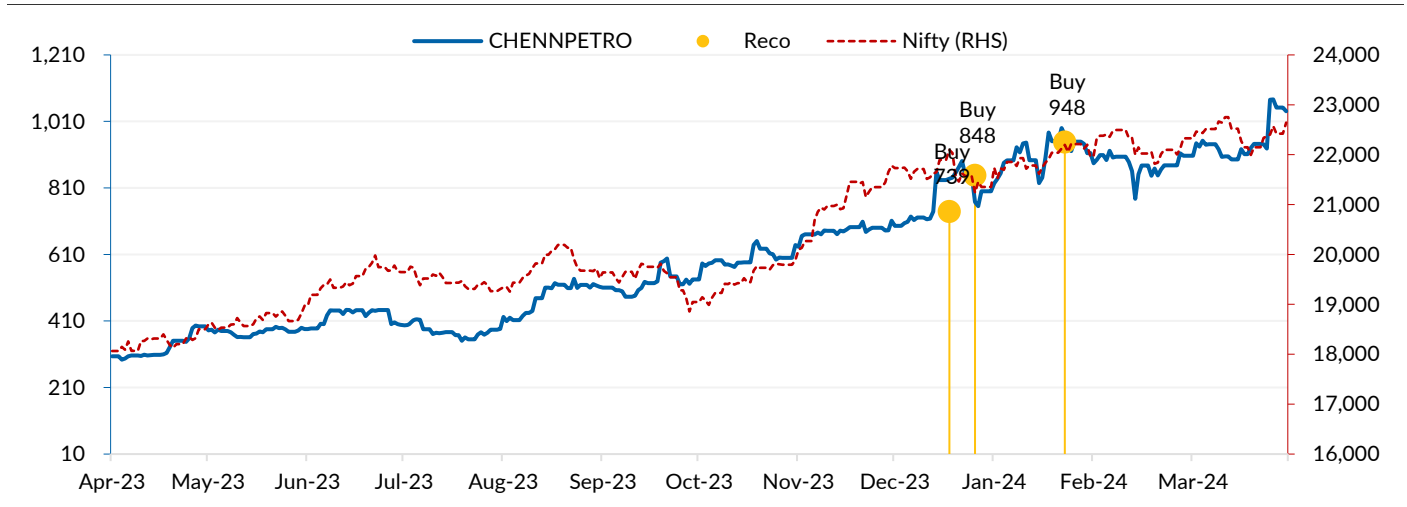
Exhibit 17: Du-pont analysis

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 (%)	63.7	77.9	37.1	19.9	14.5

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	163.2	(21.9)	(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	4.6	4.2	3.2	2.8
RoCE	17.8	45.5	31.8	19.6	15.4
RoE	48.1	56.3	32.1	18.6	13.8
RoA	8.6	21.3	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	275.8	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	5.9	8.7	10.6
P/CEPS	1.0	0.9	4.7	6.5	7.3
P/B	0.7	0.6	1.9	1.6	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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