CHENNAI PETROLEUM CORPORATION LTD

January-18

Industry: Refineries/ Petro-Products — **Cmp Rs 421**

Recommendation: Accumulate — **Target Rs 577**

Key Data

BSE Code	500110
NSE Code	CHENNPETRO
52 Week High (Rs)	477
52 Week Low (Rs)	326
Market Cap (Rs Cr)	6272
Face Value	10

Industry Snapshot

Customers	Open
Market Presence	Domestic
Govt Regulations	Medium
Msearch View	Positive

Shareholding Dec 2017

Promoters	67.29%
Public	32.71%

Promoters/ Management

Mr Sanjiv Singh	Chairman
Mr Gautam Roy	MD
Mr S.Krishna Prasad	Director
Mr S M Vaidya	Executive Dir
Mr U Venkata Ramana	Director

Key Ratios

ROCE (%)	31%
Price To Book Value x	1.82
Dvd Payout ratio	1.9%

Price Chart

Research Team

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About the Company:

Chennai Petroleum Corp Ltd (CPCL), formerly known as Madras Refineries Limited (MRL) is a leading south Indian PSU, a Group Company of Indian Oil Corporation Ltd., in the field of Hydro-carbon processing with a refining capacity of 11.5 MMTPA, two refineries, one at Manali (complex) and other at Cauvery Basin (simple). CPCL is the oldest refinery in Southern part of India and the most complex public sector refinery within India. The company produces petroleum products, lubricants, and additives. CPCL also provides high-quality feedstock, such as propylene,

Investment Rationale:

Resid up-gradation project expected to improve GRM: CPCL is implementing a Resid up-gradation project which will cost an INR 31bn. This project will help CPCL to maximise the processing of High Sulfur Fuel Oil and maximise the refinery distillate yield. The distillate yield of the Manali refinery is expected to increase from 72% to 77%. As a part of this Project, a new Delayed Coker Unit is being installed. The commissioning of this project can lead to higher Gross Refinery Margins. The company expects incremental GRM of USD1.5-2/bbl.

Merger with parent the way forward: Volatile crude oil market does not make sense to a standalone company to survive and withstand the cost of operations due to various reasons and the best bet would be to merge with the parent. Factors including costs involved in operational, procurement, taxation, capacity expansion, new products introduction and crude mixation.

BS VI Auto fuel quality: The government has made it necessary for all the refineries to meet BS VI quality norms with effect from 1st April 2020. For complying with this norm the existing diesel hydro-treating unit is being revamped to increase the capacity from 1.8 to 2.4 million tonnes per annum. Further to meet BS VI Petrol norms CPCL has installed a new FCC gasoline desulphurisation unit with 0.6mmtpa. It is being targeted for mechanical completion by June 2019.

Dharma Port Gas Facility: CPCL has proposed building of Re gasification LNG terminal project at a planned capacity of 5 million tonnes per annum to start with which is expandable up to 10 million tonnes per annum. CPCL might look at LNG as an option for the fuel used in the refinery once the availability of the gas is stable, which would also save cost to the company. The project will cater to their demand as it is extremely close to Paradip and Haldia refineries. The project is expected to complete somewhere by the end of 2018.

Mview

We expect CPCL is well placed on government agenda which has made it necessary for all the refineries to meet BS VI quality norms with effect from 1st April 2020. The improvement in complexity after completion of Resid up-gradation project will lead to better GRM and throughput for CPCL going forward. We also see story buildup merger with parent the way forward for better cost of operations and synergies to parents. CPCL also provides contort to long term investors as it gives decent dividend yield of >5.5% (Avg on Historic). At the CMP 421, CPCL is trading at P/E of 4x based on our EPS estimate of FY19E. Considering well managed balance sheet and expect better gross refining margin from Dec 2017 $6.64 per bbl (9M) from Dec 2016 $5.81 per bbl (9M) auguring well for the company profitability. Hence we recommend Investors to BUY and add on dips with Target price of Rs 577, upside 37%.

CONSOLIDATED FINANCIAL TABLES

Profit & Loss Statement (Rs Cr)

Particulars	FY16	FY17	FY18E	FY19E
Income From Operation	**34970.0**	**40607.0**	**44116.4**	**48528.1**
YOY Growth		**16%**	**9%**	**10%**
Expenditure				
Cost of Material Consumed	22754.0	24255.0	29009.8	30087.4
Purchase Stock in Trade	292.7	159.6	406.6	291.2
Changes in Inventory	208.4	105.5	-1077.2	121.3
Employee benefit expense	357.0	512.9	522.2	485.3
Excise duty	9124.0	12915.0	11759.9	13587.9
Other Expenditure	885.0	781.8	738.0	727.9
Total	**33621.1**	**38729.8**	**41409.2**	**45351.0**
EBIDTA Rs	**1348.9**	**1877.2**	**2707.2**	**3177.1**
YOY Growth		39%	44%	17%
EBIDTA Margin %	**3.9%**	**4.6%**	**6.1%**	**6.5%**
Interest	351.7	272.8	344.2	312.0
	997.2	**1604.4**	**2363.0**	**2865.1**
Depreciation	273.7	278.6	316.7	312.0
PBT	723.5	1,325.8	2,046.3	2,553.1
Other Income	30.5	34.1	0.0	0.0
PBT	**754**	**1360**	**2046**	**2553**
TAX	16.8	335.3	818.7	859.5
PAT Rs	**737.18**	**1024.64**	**1227.66**	**1693.63**
YOY Growth		39%	20%	38%
PAT Margin %	**2.1%**	**2.5%**	**2.8%**	**3.5%**
EPS	**51.19**	**70.6**	**82.4**	**115.4**

Balance Sheet (Rs Cr)

PARTICULARS	FY16	FY17
Sharholder's Fund		
a)Share capital	149.0	149.0
b)Other Equity	2319.9	3292.1
	2469	**3441**
Non current liabilities		
a)Borrowings	2003.34	2324.3
b)Long term provisions	50.98	133.2
c)Deferred Tax Liabilities(Net)	0.0	24.3
d)Other Non current liabilities	30.9	40.4
	2085	**2522**
Current Liabilities		
a)Trade Payables	2468.0	1643.9
b)Current & Financial liabilities	781.9	705.0
c)Short term provisions	74.0	136.6
d)Borrowings	2560.0	3173.4
	5883.9	**5658.9**
Total	**10438**	**11622.0**
Assets		
Non current assets		
a)Fixed assets	5798	6644
b)Non current investments	119.49	140.01
c)Long term loan and advances	35.6	32.9
d)Other non current assets	139.1	144.9
	6093	**6962**
Current Assets		
a)Inventories	3175.3	3207.1
b)Trade Receivable	761.0	1039.8
c)Cash and Bank balance	38.9	16.9
d)Short term loan and advances	28.0	24.9
e)Other current assets	316.1	363.8
f)Other Financial Assets	26.26	7.21
	4346	**4660**
Total	**10438**	**11622**

Technical Outlook

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