

## Chennai Petroleum Corp Ltd (Q1 FY09)

July 21, 2008

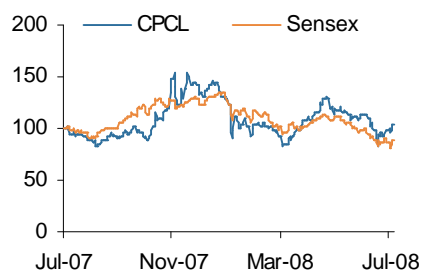
### Stock data

Sensex:	13,635
CMP (Rs):	305
Target price (Rs):	412
Upside (%):	35.3
52 Week h/l (Rs):	490/183
Market cap (Rs cr)	4,539
6m Avg vol BSE&NSE ('000 nos):	387
No of o/s shares (mn):	149
FV (Rs):	10
Bloomberg code:	MRL IN
Reuters code:	CHPC.BO
BSE code:	500110
NSE code	CHENNPETRO

### Shareholding pattern

<b>March 2008</b>	<b>(%)</b>
Promoters	67.3
FII's & institutions	23.9
Non promoter corp hold	3.3
Others	5.5

### Share price trend



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- Higher throughput coupled with galloping realization led to revenue growth of 80.6% yoy
- US\$15.8/bbl GRM for Q1 FY09, exceptional performance
- Gasoline spreads to be under pressure in the near term but GRMs likely to stay above five year averages
- CPCL's capacity to increase by 1mn tons per annum through de-bottlenecking
- Maintain BUY with a target of Rs412, upside of 35%

### Result table

Period to	Q1 FY09	Q1 FY08	Growth
Rs mn	(3)	(3)	yoy (%)
Gross Sales	126,045	74,726	68.7
Excise	(13,513)	(12,509)	8.0
Net sales	112,532	62,300	80.6
Expenditure	(100,843)	(56,303)	79.1
Operating Profit	11,689	5,997	94.9
Other Income	101	83	22.5
Interest	(380)	(460)	(17.4)
Depreciation	(639)	(637)	0.3
PBT	10,771	4,983	116.2
Tax	(3,739)	(1,668)	124.1
PAT	7,033	3,314	112.2
Equity	1,490	1,490	
OPM	10.4	9.6	76bps
EPS Annualized (Rs)	188.8	89.0	

Source: Company, India Infoline Research

### Higher throughput and robust realizations lead to strong revenue growth

Rising geopolitical tensions in the major oil exporting countries such as Iran, Nigeria and Venezuela coupled with unabated rise in demand for petroleum products from India and China, have led to crude oil prices surging to US\$148/bbl. Following which, the product prices too have rallied at a rapid pace. During Q1 FY09, Chennai Petroleum Corporation Ltd (CPCL) registered a revenue growth of 80.6% yoy to Rs112bn. Apart from jump in realizations, CPCL, processed 5.6% higher quantity of crude during the quarter. Throughput was at 2.74mn tons as compared to 2.59mn tons in Q1 FY08.

### Cost analysis

Cost Analysis	Q1 FY09	Q1 FY08	Inc/ (Dec)
As % of sales	(3)	(3)	yoy bps
Raw Material	80.2	88.5	(833)
Purchase	5.0	1.0	398
Staff cost	0.8	0.5	28
Other Expenses	3.7	0.4	331
Total Expenditure	89.6	90.4	(76)

Source: Company, India Infoline Research

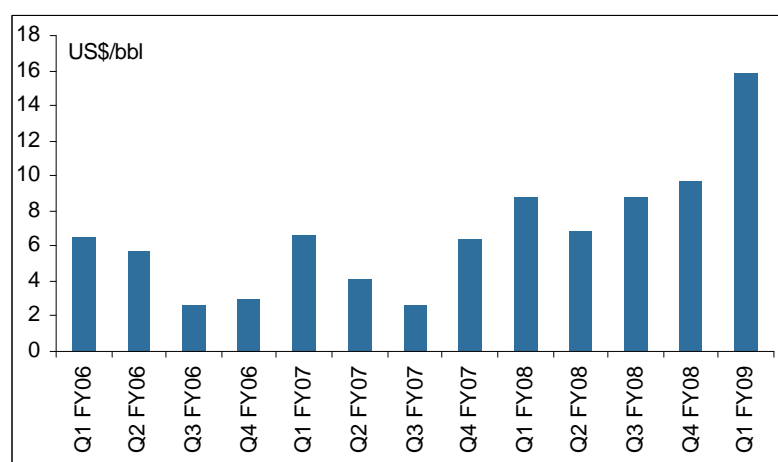
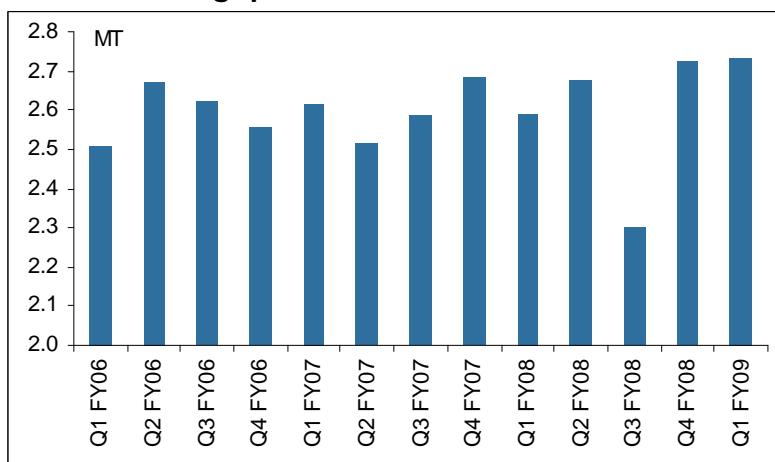
**Higher GRMs translate into 76bps increase in OPM**

CPCL reported a GRM of US\$15.9/bbl in Q1 FY09 as against US\$8.8/bbl in Q1 FY08, as increase in product prices outpaced rise in crude oil prices. The GRMs were significantly higher than the benchmark Singapore GRMs as the slate of CPCL has diesel basket contribution of about 50%, higher than Singapore slate. The company has been able to earn crack spreads of over US\$30/bbl for its diesel basket as compared to about US\$10/bbl for gasoline. Additionally, over the last one year the company has improved its distillate yield by about 150bps and has also increased intake of sour crude by about 100bps. Inventory gains of Rs1.5bn also fuelled the margins. Higher GRMs have translated into 76bps expansion in GRMs to 10.4% in Q1 FY09. The expansion was restricted on account of higher purchase of low margin products to meet rising domestic demand. Also the company reported a foreign exchange loss of Rs2bn (included in other expenditure) as compared to foreign exchange gains of Rs722mn (included in other income) in Q1 FY08.

**Lower interest cost and higher other income fuel net profit growth**

During Q1 FY09, CPCL registered 112.2% yoy growth in net profit and 114bps expansion in NPM. The key factors for robust jump in margins were 1) 94.9% yoy growth in operating profit, 2) improved capacity utilization of the refinery, 3) 17% decline in interest cost as improved cash flows has allowed the company to reduce debt on the books and 4) 22.5% higher other income.

**Trend in throughput and GRMs**



Source: Company

**Gasoline spreads to witness some pressure but GRMs to sustain over five year averages**

As Reliance Petroleum Ltd's gasoline heavy refinery commences operations in the second half of the current fiscal, gasoline spreads are likely to witness some pressure. However, with diesel demand continuing to remain strong in Indian and China, GRMs for diesel heavy refineries would continue to remain strong. On a longer term perspective, GRMs would start declining in FY10 as additional capacities come on stream and demand declines as prices continue to soar. Any delays in capacity additions would provide strength to the margins.

**Maintain BUY with a target price of Rs412**

CPCL is increasing its capacity at the Manali refinery by 1MMTPA to 4MMTPA over the next 18 months. The company is also contemplating setting up a refinery cum petrochemical complex in Ennore. However, the plans would take six months to finalize. Despite a robust performance, CPCL is significantly undervalued compared to global as well as regional peers. It is trading at 4.6x FY10E earnings of Rs66.6 and 2.8x EV/EBIDTA. We believe with increase in complexity of refinery over the next one year through de-bottlenecking should help CPCL maintain its GRMs above its long term average even if global GRMs head for a sharp fall. We maintain BUY on the stock with a target price of Rs412, an upside of 35.3%.

**Projected financials**

Period to	FY06	FY07	FY08E	FY09E	FY10E
Rs mn	(3)	(3)	(3)	(3)	(3)
Revenues	211,288	246,948	280,186	355,943	307,113
Yoy growth (%)		16.9	13.5	27.0	(13.7)
Operating profit	10,831	12,472	20,396	24,060	17,995
OPM (%)	5.1	5.1	7.3	6.8	5.9
PAT	4,810	5,653	11,230	14,130	9,921
Pre-exceptional PAT	4,726	5,653	11,230	14,130	9,921
Yoy growth (%)		17.5	98.7	25.8	(29.8)
EPS (Rs)	32.3	37.9	75.4	94.8	66.6
P/E (x)	9.4	8.0	4.0	3.2	4.6
P/BV (x)	2.0	1.7	1.3	1.0	0.8
EV/EBITDA (x)	6.6	5.0	3.0	2.4	2.8
ROE (%)	21.1	21.4	31.6	29.7	17.9
ROCE (%)	17.7	23.9	35.8	36.9	25.0

Source: Company, India Infoline Research

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