

# Chennai Petroleum

## Poor fare; but bottom closer

### Forex losses continue to hit hard

CPCL reported another poor quarter with in-line revenue of INR111bn but forex losses hitting the EBITDA and bottom-line. The Q3FY12 EBITDA came in at INR619mn, significantly below Street estimates of INR1.5-2.0bn, while CPCL reported a net loss of INR634mn. The company reported GRMs of USD3.36/bbl, below our estimate of USD4.3/bbl. The Q3FY12 throughput was also affected marginally due to the cyclone hitting the east coast leading to a standstill in crude supply around Dec'11-end.

### Key takeaways from concall: GRMs break-up and refinery plans

- The inventory gain for Q3FY12 was INR1.48bn (USD1.48/bbl), while the exchange related losses net of crude (INR2.23bn) and product gains (INR0.20bn) were INR2.03bn (USD2.04/bbl). With the reported GRMs of USD3.36/bbl, our analysis suggests that the operational margin was ~USD3.9/bbl. We expect better Q4FY12 GRMs, as well as FY13 due to recovery in spreads of light products.
- CPCL achieved ~70% of distillate yield in Q3FY12 (22% light and 47.9% middle distillates) while the fuel and loss was higher 9.8% due to additional fuel consumption for secondary units. Post the residue upgradation project in FY13, CPCL expects the distillate yield to reach 85-90%. Also, CPCL would be taking a 2-month shutdown in Jun/Jul 2012, post which another 0.6MMT of capacity will be blended in through debottlenecking.
- Capex for FY12 so far stands at INR3.2bn, and it should be INR5bn for FY12 and around INR8bn for FY13.

### Still some pain left, but bottom getting closer; Upgrade to Reduce

We upgrade CPCL to Reduce from Sell as we see the stock bottoming out after declining 14% and under-performing the Sensex by 23% since our downgrade in Oct'11. We see operational concerns hurting earnings for another 2-3 quarters, which should keep CPCL under pressure. In the near term, we would turn positive only if CPCL corrects another 10-12% from the current levels. CPCL trades at 6x EV/EBITDA on FY14 estimates, a slightly rich multiple for a simple refiner. We value CPCL at 5.5x EV/EBITDA, revising our TP to INR160/sh.

## Rating : Reduce

Target Price : INR160

Downside : 6%

CMP : INR170 (as on 7 February 2012)

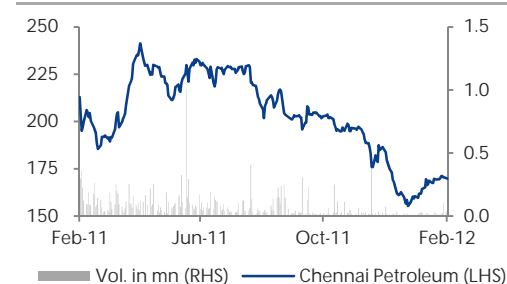
### Key data\*

Bloomberg /Reuters Code	MRL IN/CHPC.BO
Current /Dil. Shares O/S (mn)	149/149
Mkt Cap (INRbn/US\$mn)	25/516
Daily Vol. (3M NSE Avg.)	22,903
Face Value (INR)	10

1 US\$= INR49

Source: Bloomberg; \* As on 7 February 2012

### Price & volume



Source: Bloomberg

Share holding (%)	Q4FY11	Q1FY12	Q2FY12	Q3FY12
Promoter	67.3	67.3	67.3	67.3
Institutional Investors	18.9	18.3	18.8	19.0
Other Investors	7.8	8.3	7.9	7.8
General Public	6.0	6.1	6.0	5.9

Source: BSE

Price performance (%)	3M	6M	12M
Sensex	0.3	1.8	(2.3)
Chennai Petroleum	(13.6)	(18.9)	(20.2)
MRPL	3.7	(8.5)	(4.0)

Source: Bloomberg

Y/E March (INR mn)	Q3FY12	Q3FY11	YoY(%)	Q2FY12	QoQ (%)	Q3FY12E	Variance (%)
Net Sales	111,509	83,476	33.6	94,233	18.3	104,229	7.0
Operating Expenses	110,890	80,002	38.6	96,335	15.1	102,381	8.3
% of Sales	99.4	95.8		102.2		98.2	
EBITDA	619	3,474	(82.2)	(2,102)	(129.4)	1,848	(66.5)
EBITDA Margins (%)	0.6	4.2		(2.2)		1.8	
Other Income (Net)	309	124	148.4	110	180.1	74	318.3
Interest	956	545	75.6	93	928.1	398	140.1
Depreciation	910	735	23.9	918	(0.8)	943	(3.5)
PBT	(939)	2,319	(140.5)	(3,002)	(68.7)	581	NA
Tax	(305)	770	(139.6)	(3,734)	(91.8)	192	NA
Effective Tax Rate (%)	32.4	33.2		124.4		33.0	
Adjusted PAT	(634)	1,549	(140.9)	732	(186.6)	389	NA
NPM (%)	(0.6)	1.9		0.8		0.4	
Extra ordinary items	-	-		-		-	
Reported PAT	(634)	1,549	(140.9)	732	(186.6)	389	NA

Source: Company, Elara Securities Estimate

### Key Financials

Y/E Mar (INR mn)	Rev	YoY (%)	EBITDA	EBITDA (%)	Adj PAT	YoY (%)	Fully DEPS	RoE (%)	RoCE (%)	P/E (x)	EV/EBITDA (x)
FY10	249,726	(21.9)	8,532	3.4	6,032	NA	40.51	17.4	10.9	4.2	7.7
FY11	331,078	32.6	12,164	3.7	5,115	(15.2)	34.35	13.6	12.7	4.9	5.5
FY12E	414,523	25.2	947	0.2	(572)	(111.2)	(3.84)	(1.5)	(2.6)	(44.3)	76.9
FY13E	386,763	(6.7)	9,935	2.6	2,277	(498.3)	15.29	5.9	7.4	11.1	7.3
FY14E	391,332	1.2	12,097	3.1	3,476	52.7	23.35	8.5	9.1	7.3	6.0

Source: Company, Elara Securities Estimate

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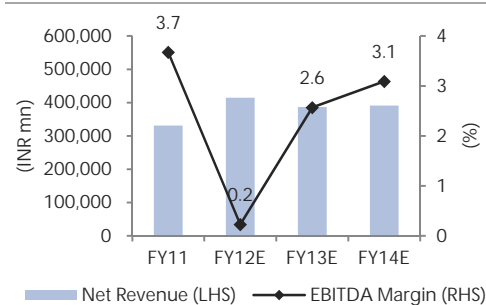
Elara Securities (India) Private Limited

## Financials (Y/E Mar)

Income Statement (INR mn)	FY11	FY12E	FY13E	FY14E
Net Revenue	331,078	414,523	386,763	391,332
<b>EBITDA</b>	<b>12,164</b>	<b>947</b>	<b>9,935</b>	<b>12,097</b>
Non operating Income	1,160	501	345	345
OPBITDA	13,324	1,448	10,280	12,442
Depreciation & Amortization	3,145	3,669	4,063	4,456
<b>EBIT</b>	<b>10,180</b>	<b>(2,221)</b>	<b>6,217</b>	<b>7,985</b>
Interest Expenses	2,545	2,714	2,804	2,774
<b>PBT</b>	<b>7,635</b>	<b>(4,934)</b>	<b>3,414</b>	<b>5,212</b>
Taxes	2,520	(4,362)	1,137	1,736
<b>Adjusted PAT</b>	<b>5,115</b>	<b>(572)</b>	<b>2,277</b>	<b>3,476</b>
Extra-ordinaries	-	-	-	-
<b>Reported PAT</b>	<b>5,115</b>	<b>(572)</b>	<b>2,277</b>	<b>3,476</b>
Balance Sheet (INR mn)	FY11E	FY12E	FY13E	FY14E
Share Capital	1,490	1,490	1,490	1,490
Reserves	36,169	35,598	37,075	39,331
Borrowings	42,225	48,225	45,225	47,225
Deferred Tax (Net)	6,045	6,045	6,045	6,045
Minority Interest	-	-	-	-
<b>Total Liabilities</b>	<b>85,929</b>	<b>91,358</b>	<b>89,835</b>	<b>94,092</b>
Gross Block	62,884	69,884	77,384	84,884
Accumulated Depreciation	28,526	32,195	36,258	40,714
Net Block	34,358	37,689	41,126	44,170
Capital Work In Progress	11,559	8,559	8,559	8,559
Investments	225	225	225	225
Net Working Capital	39,787	44,884	39,925	41,137
Other Assets	-	-	-	-
<b>Total Assets</b>	<b>85,929</b>	<b>91,358</b>	<b>89,835</b>	<b>94,092</b>
Cash Flow Statement (INR mn)	FY11E	FY12E	FY13E	FY14E
Cash profit adjusted for non cash items	12,000	5,310	8,798	10,361
Working Capital Changes	(2,349)	(4,789)	5,935	1,579
<b>Operating Cash Flow</b>	<b>9,651</b>	<b>520</b>	<b>14,734</b>	<b>11,940</b>
Capex	(7,174)	(4,000)	(7,500)	(7,500)
Free Cash Flow	2,477	(3,480)	7,234	4,440
<b>Financing Cash Flow</b>	<b>(2,552)</b>	<b>3,286</b>	<b>(6,603)</b>	<b>(1,994)</b>
<b>Investing Cash Flow</b>	<b>56</b>	<b>501</b>	<b>345</b>	<b>345</b>
<b>Net change in Cash</b>	<b>(20)</b>	<b>308</b>	<b>976</b>	<b>2,791</b>
Ratio Analysis	FY11E	FY12E	FY13E	FY14E
Income Statement Ratios (%)				
Revenue Growth	32.6	25.2	(6.7)	1.2
EBITDA Growth	42.6	(92.2)	948.7	21.8
PAT Growth	(15.2)	(111.2)	(498.3)	52.7
EBITDA Margin	3.7	0.2	2.6	3.1
Net Margin	1.5	(0.1)	0.6	0.9
Return & Liquidity Ratios				
Net Debt/Equity (x)	1.0	1.1	1.0	0.9
ROE (%)	13.6	(1.5)	5.9	8.5
ROCE (%)	12.7	(2.6)	7.4	9.1
Per Share data & Valuation Ratios				
Diluted EPS (INR/Share)	34.4	(3.8)	15.3	23.3
EPS Growth (%)	(15.2)	(111.2)	(498.3)	52.7
DPS (INR/Share)	12.0	0.0	4.6	7.0
P/E (x)	4.9	(44.3)	11.1	7.3
EV/EBITDA (x)	5.5	76.9	7.3	6.0
EV/Sales (x)	0.2	0.2	0.2	0.2
Price/Book (x)	0.6	0.6	0.6	0.5
Dividend Yield (%)	7.1	0.0	2.7	4.1

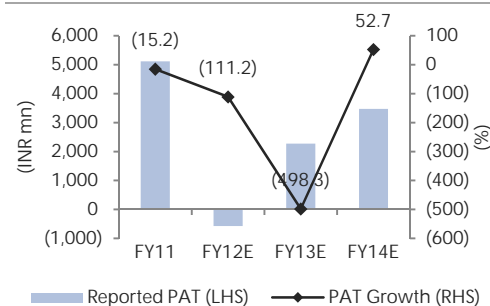
Source: Company, Elara Securities Estimates

## Revenue &amp; margins growth trend



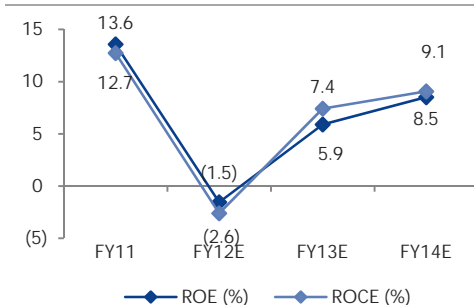
Source: Company, Elara Securities Estimates

## Adjusted profits growth trend



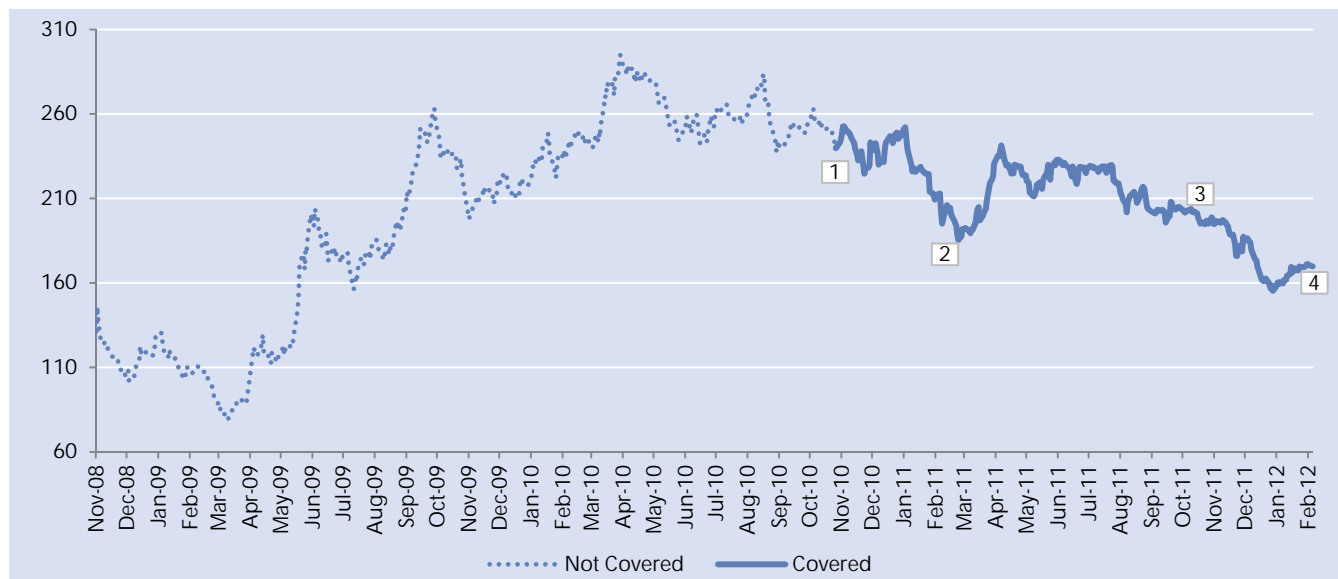
Source: Company, Elara Securities Estimates

## Return ratios



Source: Company, Elara Securities Estimates

## Coverage History



	Date	Rating	Target Price	Closing Price
1	08-Nov-2010	Accumulate	INR280	INR240
2	25-Jan-2011	Accumulate	INR265	INR225
3	21-Oct-2011	Sell	INR180	INR196
3	07-Feb-2012	Reduce	INR160	INR170

## Guide to Research Rating

<b>BUY</b>	Absolute Return >+20%
<b>ACCUMULATE</b>	Absolute Return +5% to +20%
<b>REDUCE</b>	Absolute Return -5% to +5%
<b>SELL</b>	Absolute Return < -5%

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