

Q4 FY22 EARNINGS CONFERENCE CALL OF CHENNAI PETROLEUM CORPORATION LTD.

HOSTED BY PRABHUDAS LILLADHER PVT. LTD.

– **RECORDING STARTS AT 8.44 MINUTES**

– **Host:**

- Good Day, and welcome to the Q4 FY22 Earnings Conference Call of Chennai Petroleum Corporation Ltd. hosted by Prabhudas Lilladher Pvt. Ltd. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing * and 0 on your touchtone phone. Please note, that this conference is being recorded. I now hand the conference over to Mr. Avishek Dutta from Prabhudas Lilladher Pvt. Ltd. Thank you, and over to you sir.

– **Mr. Avishek Dutta – Prabhudas Lilladher Pvt Ltd:**

- Thank you. Hello everyone and welcome to post result conference call of Chennai Petroleum. The management is represented by Mr. Rajeev Ailawadi – Director Finance, and is also joined by senior members of the Finance and Planning team. Sir, after you give your opening remarks, the floor will be open for questions. So, over to you sir.

– **Mr. Koushik - Management, CPCL:**

- Good afternoon. This is Koushik from the Corporate Finance team of CPCL. Thank you all for the very keen interest in CPCL and I welcome you all to this concall. As Avishek shared, we have with us Shri. Rajeev Ailawadi – Director Finance, and my colleagues from the Planning Team as well.
- In short, this has been a very eventful year. We had a Q1 which was very difficult with the 2nd wave of COVID-19, and then subsequently in Q2-Q3 we had a major M&I shutdown as well. During the 4th Quarter, yes, CPCL achieved many firsts in terms of our physical performance. We had a capacity utilisation in excess of around 110%, our energy conservation efforts have resulted in a fuel loss of around 8.7%. Yeah, so the cracks have also been good. And of course, you have the financial performance in the public domain for your analysis and understanding. Just a small recap, our GRM was \$8.9 per barrel for the financial year and \$14.2 per barrel for Q4. And, the PAT for the financial Year was 1342, and the Q4 PAT was 994 crores. This was possible, of course, backed up by our physical performance, and of course the improving cracks, and CPCL is back in the dividend list after a hiatus of 3 years. Now, over to our Director Finance, Shri. Rajeev Ailawadi.

- **Mr. Rajeev Ailawadi - Director Finance, CPCL:**
- Thank you Koushik for setting the tone. Good afternoon ladies and gentlemen. As has been set out by Koushik, we have been seeing higher cracks since October 2021. Of course, much of it is in the last 2 months, would be perhaps on the geopolitical issues which have cropped up. Nevertheless, as was stated in the past, we remain committed on both the value-added products which will de-risk the business in adverse times as well, at the same time, currently we maximise the potential on the gas-oil side and other fuels. We also continue to focus on other few key parameters. Perhaps, you are all aware how the refining industry moves. We continue to focus on fuel loss keeping the operating cost down. And also, lot of concerns have emanated over the last few years on the debt, so we continue to focus on reducing the debt as we go along.
- Now we are open to any of your queries and questions.
- **Host:**
- Thank you very much. We'll now begin the Question & Answer session. Anyone who wishes to ask a question may press * and 1 on their touchtone telephones. If you wish to remove yourself from the question queue, you may press * and 2. Participants are requested to use handsets while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Naresh Kataria from Moneycurves Analytics. Please go ahead.
- **Mr. Naresh Kataria – Moneycurves Analytics:**
- Good afternoon sir, congratulations! I have two questions. First is on the GRMs and cracks. I feel that the diesel cracks are the highest worldwide, and I also believe we have a very high share of diesel in our product slate. So, will the refining margins be better or the same as the benchmark Singapore GRMs and reported in the press? Should we be doing better because of our product slate?
- **Mr. Rajeev Ailawadi - Director Finance, CPCL:**
- Yeah, I think your analysis that way looks to be correct. Indian refiners are typically more concentrated on the diesel which is emanating from the overall fuel basket in the country which has been sustaining for many years. So typically, we feel we should do better than the Singapore GRM.
- **Mr. Naresh Kataria – Moneycurves Analytics:**
- Excellent! My second question is on the import of crude. I see that India is now importing crude from Russia. I also see that looks like some discount to benchmark. Are we importing anything from Russia that our refining margins could be actually better now?

- **Mr. Rajeev Ailawadi - Director Finance, CPCL:**
- Two things on that. First of all, there are lot of... how do we describe? It would not be right for me at the moment to comment on the Russian crude. The other fact which I wanted to bring to the table is, notwithstanding that, see, how the crude selection takes place is based on our matrix and our programming model. So, we have a big slate of crude which we gets selected automatically based on our model, and that is the crude we buy. So, it is not a conscious decision to go for X, Y, Z sort of crude. Okay, it depends on how our product profile is looking for the month. It also depends upon the other crudes which are available, what we are willing to take during the month, all those factors take into account the model which we are running and the crude gets selected. So, this is how we do it and this is how we'll continue to do it.
- **Mr. Naresh Kataria – Moneycurves Analytics:**
- Got it. Thank you. And the last one is on debt repayment; you alluded to repaying debt. What should we expect as debt repayment for the year, assuming... I don't know, the current cracks may or may not sustain, but looks like they will sustain from higher from the previous level. Could we assume 2,000-3,000 crores debt repayment in FY23?
- **Mr. Rajeev Ailawadi - Director Finance, CPCL:**
- I cannot comment on the exact number. I've shared in our earlier calls also, as far as our capital allocation is concerned, we don't expect any major capex for the next 1-2 years. There will be some capex, there will be some capex on what you call, small projects which we have taken up, and there will be also some maintenance capex which is a regular capex. But, most of the big-ticket items on the capex, except for our contribution to 9 MMTPA refinery in Nagapattinam, is out of the way. And, we are also running a good depreciation shield of around 500-600 crores, which is enough for meeting any capex. And, that our strategy is whatever cashflows we have during this time, that will necessarily go to debt reduction only. That is how we feel. However, it will be very difficult to put a number to it at the moment.
- **Mr. Naresh Kataria – Moneycurves Analytics:**
- Thank you, that was helpful. Also, thanks for hosting this call. I'll get back on the queue if I have any questions.
- **Host:**
- Thank you. The next question is from the line of Aishwarya Agarwal from Nippon India. Please go ahead.
- **Mr. Aishwarya Agarwal – Nippon India:**
- Hi. Thank you very much. Sir, if you can give us the current refining margin numbers, what we are doing at this point of time... when we calculate Singapore, it comes out

to be, say \$18 to \$23-24, it's a very big number. So, where do you stand versus the numbers which we calculate?

– **Mr. Rajeev Ailawadi - Director Finance, CPCL:**

– I think you're in the right window, is what I can say without sharing the exact number. But, I think, largely, we should be similarly in that same window.

– **Mr. Aishwarya Agarwal – Nippon India:**

– Sure, that's helpful. The second question is, I understand that in the exports market, the premium on the products are very high. So, if we're exporting diesel and petrol, we are realising \$7-8 extra on that. Is this correct?

– **Mr. Rajeev Ailawadi - Director Finance, CPCL:**

– See, right now, as you know, we are only the major refinery in Southern India alongwith Kochi refinery. The realisation to the export will be definitely less than what you can realise locally. So, we continue to be market our products locally within Tamil Nadu or neighbouring states, and that is where our market lies.

– **Mr. Aishwarya Agarwal – Nippon India:**

– Yeah, I understand that there is a domestic supply which is meaningful. But, I also understand that exports markets are very very lucrative. I just want to understand how lucrative is it and what kind of volume are we exporting right now?

– **Mr. Aishwarya Agarwal – Nippon India:**

– Okay, sure. And sir, this crude also has some premium... I guess some \$7-8 premium is what we end up paying for the Middle-east at this point of time because of scarcity. So is it true? That is one. And second, what is the composition of our crude which is coming from the Middle-east and the non Middle-east?

– **Mr. Rajeev Ailawadi - Director Finance, CPCL:**

– See, most of it is from Middle-east only. And you're right, there is a premium on the crude. But all things factored in, at the moment we're on a smooth wicket, is what I can say. And, these are regular things – the premium on the product side and the premium on the crude side keeps on varying. Perhaps in June, the premiums are coming down for crude also. So these things keep on happening and the markets adjust accordingly.

– **Mr. Aishwarya Agarwal – Nippon India:**

– Sure sir. Adjusting for this premium on crude which is an additional cost of us, do we still see that the numbers that we calculate for Singapore, are we are close to that, or are we lower than that?

- **Mr. Rajeev Ailawadi - Director Finance, CPCL:**
- All things considered, is what I told you.
- **Mr. Aishwarya Agarwal – Nippon India:**
- Okay. Sure sir. This is very helpful, thank you very much.
- **Host:**
- Thank you. The next question is from the line of Sabri from Emkay Global. Please go ahead.
- **Mr. Sabri – Emkay Global:**
- Yeah. Good afternoon sir and congratulations on the good set of numbers. First, I just wanted to have this book keeping question. What was your inventory gain for Q4 in FY22?
- **Mr. Rajeev Ailawadi - Director Finance, CPCL:**
- Koushik, do you have the number readily?
- **Mr. Koushik - Management, CPCL:**
- Yes. The inventory gain for Q4 is in the order of around \$5 to \$5.5. And, for the year also, in terms of dollar per barrel, for the year it is in the order of around \$3.5.
- **Mr. Sabri – Emkay Global:**
- \$5 for full year also and \$5 to \$5.5 for Q4?
- **Mr. Koushik - Management, CPCL:**
- For the full year it's around \$3.5.
- **Mr. Sabri – Emkay Global:**
- So, for full year it is \$3.5 and for Q4 what would it exactly be? Would it be \$5.2, \$5.3, something of that sort?
- **Mr. Koushik - Management, CPCL:**
- Yeah. To be precise, it's around \$5.3-5.4 range.
- **Mr. Sabri – Emkay Global:**
- Okay, thank you. And second, what would be the total debt of the company including current maturity of long term debt?
- **Mr. Rajeev Ailawadi - Director Finance, CPCL:**
- Koushik, you answer.

- **Mr. Koushik - Management, CPCL:**
- Of course, the current debt... we have preference share capital from IOCL also. And then, including the preference share capital, the debt would be 9,200 crores. The preference share capital component by itself is around 640 crores.
- **Mr. Sabri – Emkay Global:**
- Okay.
- **Mr. Rajeev Ailawadi - Director Finance, CPCL:**
- For current maturity it may be around 5,000 crores?
- **Mr. Koushik - Management, CPCL:**
- Yes sir.
- **Mr. Sabri – Emkay Global:**
- So, 5,000 crores would be current maturity and 4,200 crores would be long term + short term? Is that right?
- **Mr. Koushik - Management, CPCL:**
- Yeah. Around that range.
- **Mr. Sabri – Emkay Global:**
- Is it 14,000 crores including current maturity or 9,200 crores?
- **Mr. Rajeev Ailawadi - Director Finance, CPCL:**
- No No, 9,200 crores.
- **Mr. Sabri – Emkay Global:**
- Okay, got it. And sir secondly, I just wanted to know, your utilisation levels have improved significantly, considering in the past the refinery used to operate at around 90% which was the peak rate some years ago. Now, you're operating at 100-110%. So, any particular steps you have taken or is it part of general debottlenecking? And, is there any change in secondary processing infrastructure, has something of that sort happened?
- **Mr. Rajeev Ailawadi - Director Finance, CPCL:**
- See, we have a major turnaround or shutdown in October-November where we had taken one of our refineries i.e. typically what you call CDU and also some downstream units. So, it has taken nearly 2 months for that. I think that was a good time to do it, and thereafter. It has removed lot of bottlenecks in the downstream processing, as well as the fuel distillation unit also. So, that is one factor which perhaps is helping us. The other factor seems to be, there is also an uptick in the

demand in the country. When you're comparing from... (I don't know if you're comparing with numbers from 2020 or 2019). Post COVID, there has been a general uptick in the demand which we have started seeing in the last 2-3 months. And, March has always historically been a very robust month, and Q4 also has been a very robust month, which is also... you would have seen the GST numbers also which have come for March and April. So, those factors are also playing. And perhaps, one more factor which should be... as was discussed earlier, lot of exports may be by some private players. So, all those factors could perhaps be the reason where we are seeing good demand.

– **Mr. Sabri – Emkay Global:**

– Right. And just one last question. You mentioned that your fuel loss was around 8.7%. So, this was for Q4 or was this for FY22 as a whole?

– **Mr. Rajeev Ailawadi - Director Finance, CPCL:**

– This was for Q4.

– **Mr. Sabri – Emkay Global:**

– Okay. And what would be your petrol, diesel and jet kerosene percentage slate in Q4?

– **Mr. Rajeev Ailawadi - Director Finance, CPCL:**

– Is Nandgopal there?

– **Host:**

– Sorry to interrupt. Nandgopal is not connected with us.

– **Mr. Rajeev Ailawadi - Director Finance, CPCL:**

– Koushik, do you have the numbers?

– **Mr. Koushik - Management, CPCL:**

– I'll be able to give it.

– **Mr. Rajeev Ailawadi - Director Finance, CPCL:**

– Around 50% will be diesel and 10% will be MS largely.

– **Mr. Sabri – Emkay Global:**

– 50% diesel, 10% MS and ATF and Kero combined?

– **Mr. Rajeev Ailawadi - Director Finance, CPCL:**

– That will be also around 10%.

- **Mr. Koushik - Management, CPCL:**
- ATF and Kero is around 8%.
- **Mr. Sabri – Emkay Global:**
- So distillate will be around 68%, I mean, considering only these three products? Okay. Thank you so much and all the best.
- **Host:**
- Thank you. The next question is from the line of Amit Rustagi from UBS. Please go ahead.
- **Mr. Amit Rustagi – UBS:**
- Thank you sir for giving me an opportunity. Sir, my first question relates to... you have been mentioning in the past calls that there have been capital raising plans and plans to reduce the debt. So, could you please elaborate on those plans, what are the plans we have now?
- **Mr. Rajeev Ailawadi - Director Finance, CPCL:**
- I missed out your name, but if you would have heard us clearly, you know, this also depends upon how soon and when the sanctions go off on the Iranian side. And, we have also shared in the past that we're ready to have some capital-base enhancement as soon as the sanctions go. Somehow these are getting delayed because of various factors. So, not within our control, I would say. But nevertheless, as and when they go, we do have some plans to go ahead.
- **Mr. Amit Rustagi – UBS:**
- Maybe right issue sort of capital raising plans we'll have after the sanctions go away, basically?
- **Mr. Rajeev Ailawadi - Director Finance, CPCL:**
- Sorry?
- **Mr. Amit Rustagi – UBS:**
- I'm saying, may be right issue will be the kind of plan because that's where you're dependent on the Iran sanctions, right, because the Iran entity needs to subscribe to the right issue.
- **Mr. Rajeev Ailawadi - Director Finance, CPCL:**
- Yeah, that is one possibility, definitely. That seems to be the most likely outcome. But then we'll see how it happens.
- **Mr. Amit Rustagi – UBS:**

- Sir, the second question I have is, how much contribution will they need to make on this new 9 MMTPA refinery as per our share, and over what period? I think the cost is around 30,000 crores plus for this refining complex.
- **Mr. Rajeev Ailawadi - Director Finance, CPCL:**
- I thin, these numbers are in public domain in any case. You're correct, the cost is around 30,000 crores. We need to invest around 2,500 crores in this project over the next 4 to 5 years.
- **Mr. Amit Rustagi – UBS:**
- Over the next 4 to 5 years. So, can we take 500 crores per annum kind of equity contribution?
- **Mr. Rajeev Ailawadi - Director Finance, CPCL:**
- Yeah, I think that would be a realistic number. Of course, most of it will come at the end of the project, and even beyond that. Some will come in later as the finalisation takes some time. I would say, on a rough estimate, 300 to 400 per year over the next 6-7 years. That's how we see it.
- **Mr. Amit Rustagi – UBS:**
- Typically, equity will be put ahead of the debt, right? Or, will equity will be put later then the debt? So, your equity contribution will be ahead of the debt contribution.
- **Mr. Rajeev Ailawadi - Director Finance, CPCL:**
- Equity contribution has to be ahead of the debt contribution. I mean, some part of it.
- **Mr. Amit Rustagi – UBS:**
- Yeah, okay. And sir, when we had spent 3,000 crores on this residual upgrade, we had certain yields in mind, like, where will we take our distillate yield and, are we able to reduce the average API of our crude, and are we able to infuse more sulphur crude? Can you give us some idea on how the profitability of those residual projects are going on right now? How much yield improvement have we taken because of residual from earlier level to the current level? What is the current distillate yield versus what it was before residual?
- **Mr. Rajeev Ailawadi - Director Finance, CPCL:**
- So today if you see, our distillate yield is typically around 75%. And, before we had this project, it was hovering around 62-65%. Koushik, am I right on that number?
- **Mr. Koushik - Management, CPCL:**
- Yeah, it was around 65% to 68%.
- **Mr. Rajeev Ailawadi - Director Finance, CPCL:**

- So, there has been a substantial jump and most of it is coming from gas oil only.
- **Mr. Amit Rustagi – UBS:**
- And how much crude cost are we able to reduce over the benchmark... versus the benchmark? If I compare Dubai crude as a benchmark, where do you see our blended crude cost right now? And, are we using average API ahead higher than Dubai or below Dubai?
- **Mr. Rajeev Ailawadi - Director Finance, CPCL:**
- So, our high sulphur to low sulphur has dramatically changed. And typically, if you see, the differential between Dubai and Brent is roughly around \$4-5 now. That is definitely a gain if you see the blended cost. And if you see, the high sulphur in current quarter was 70 and we are able to go in the coming months, which perhaps would be around 60 before the project started.
- **Mr. Amit Rustagi – UBS:**
- So, for high sulphur we have moved from 60 to 75 broadly. You mentioned that the crude cost is \$4-5 lower. But, when I compare your crude cost based on the last quarter data which we have and the annual data, the crude costs are always coming higher than the Dubai crude. So, what could be the reason for that?
- **Mr. Rajeev Ailawadi - Director Finance, CPCL:**
- I don't know how you're calculating that.
- **Mr. Amit Rustagi – UBS:**
- The cost of raw material is given in the annual results and the quarterly results. The throughput is known to us, the dollar rate is known to us, the conversion is 7.33. So, if we use that, it is always higher than Dubai crude.
- **Mr. Rajeev Ailawadi - Director Finance, CPCL:**
- It is higher than Dubai crude...
- **Mr. Amit Rustagi – UBS:**
- For e.g. If we are using Middle-east crude... you mentioned that most of your crude is Middle-east, and most of the Middle-east crude is premium to Dubai. So, how are you able to get it at a \$4-5 discount?
- **Mr. Rajeev Ailawadi - Director Finance, CPCL:**
- What I am telling you is, there are two types of crudes. One is, benchmarked to Brent and the other is benchmarked to the Dubai crude. So, Dubai-Brent today differential is around \$4-5. Say, Dubai is cheaper than Brent around \$4-5. So, in your calculation, you have to also see there is around 30-35% of Brent crude also, benchmarked to Brent also. So, our crude baskets will definitely be higher than

Dubai because not 100% crude is Dubai benchmarked. Even though it may be coming from the Middle-east, but the crude itself... some crudes are lighter crudes which are also benchmarked to Brent, which are low sulphur.

– **Mr. Amit Rustagi – UBS:**

– Okay, got it. So basically, broadly we can understand...

– **Mr. Amit Rustagi – UBS:**

– Okay. And sir, in the recent ones, for example, the crudes which are benchmarked to Dubai, as someone highlighted on the call, the premiums are as higher as \$8-9. So, are we reducing the usage of those crudes or are we continuing to take them because they're part of our term contract?

– **Mr. Rajeev Ailawadi - Director Finance, CPCL:**

– We don't have a 100% term contract. There's a blend of term contract and spot contract, and those are also on a yearly basis. It is not that we have to take it on that particular month. The whole idea is, as I described earlier, we run a model based on the demand and other product requirements, and the crude gets selected based on the model.

– **Mr. Amit Rustagi – UBS:**

– Okay sir, got it. Thanks a lot sir, this was super helpful. Thank you.

– **Host:**

– Thank you. The next question is from the line of Reena Shah from Elara Capital. Please go ahead.

– **Ms. Reena Shah – Elara Capital:**

– Hello? Can you hear me?

– **Mr. Rajeev Ailawadi - Director Finance, CPCL:**

– Yeah, we can hear you ma'am.

– **Ms. Reena Shah – Elara Capital:**

– Thank you for the opportunity. I have two questions. Basically from the previous question of Amit sir, out of the total crude purchase, you said that some is contracted and some is spot. Sir, can you just bifurcate what percentage of contracted is there and spot crude is there?

– **Mr. Rajeev Ailawadi - Director Finance, CPCL:**

– Koushik, do we have the number?

– **Mr. Koushik - Management, CPCL:**

- Yes sir. Typically, our term crude should be around 60-65%.
- **Ms. Reena Shah – Elara Capital:**
- Okay. And sir, I wanted to know, what kind of inventory levels do you keep?
- **Mr. Rajeev Ailawadi - Director Finance, CPCL:**
- In terms of crude, we keep around 22 to 23 days on an average.
- **Ms. Reena Shah – Elara Capital:**
- Okay. And product?
- **Mr. Rajeev Ailawadi - Director Finance, CPCL:**
- Koushik, how much is product?
- **Mr. Koushik - Management, CPCL:**
- We typically keep around 10 to 12 days of product.
- **Ms. Reena Shah – Elara Capital:**
- Okay. That's it from my side, thank you.
- **Host:**
- Thank you. The next question is from the line of Gagan Dixit from Elara Capital. Please go ahead. Mr. Gagan Dixit, please go ahead with your question. Your line is unmuted. May I request you to unmute yourself if muted from your handset Mr. Dixit? As there is no response from the line, we'll move to the next question, which is from the line of Tanuj from Anupam 39.07. Please go ahead.
- **Mr. Tanuj:**
- Hello. Hi, my question has already been asked, so I would go out. Thank you.
- **Host:**
- Thank you. The next question is from the line of Anurag Jain from Green Lantern Capital. Please go ahead.
- **Mr. Anurag Jain – Green Lantern Capital:**
- Thank you so much. Most of the questions have been answered, so just a small clarification. This \$14.2 per barrel for the quarter, this includes inventory gain, right? I just wanted to know that.
- **Mr. Rajeev Ailawadi - Director Finance, CPCL:**
- Yeah, that includes inventory gain.

- **Mr. Anurag Jain – Green Lantern Capital:**
- Thanks all. Thank you so much.
- **Host:**
- Thank you. The next question is from the line of Amit Rustagi from UBS. Please go ahead.
- **Mr. Amit Rustagi – UBS:**
- Thank you sir for the opportunity again. Could you give us a number at which level of crude is our inventory benchmarked as on 31st March?
- **Mr. Rajeev Ailawadi - Director Finance, CPCL:**
- Koushik, do you have the number ready, otherwise we can tell them later also.
- **Mr. Koushik - Management, CPCL:**
- Yeah, we'll have to come back.
- **Mr. Rajeev Ailawadi - Director Finance, CPCL:**
- Can we move to the next question please?
- **Host:**
- Thank you. Before we take the next question, a reminder to the participants, to ask a question please press * and 1.
- ***RECORDING ENDS AT 41.15 MINS***