

Near term profit to be subdued

MRPL reported its Q4FY19 numbers that were largely in line with estimates on the profitability front. Revenues declined 12.3% QoQ to ₹ 17749.9 crore, above our estimates on higher-than-expected volumes. Crude throughput was at 4.3 MMT in Q4FY19, flattish QoQ. Reported GRMs during the quarter were at US\$5/bbl, in line with our estimates. Core GRMs were at US\$3.2/bbl while inventory profit came in at US\$ 1.8/bbl. Also, the company reported lower-than-expected other operational expenses and saw forex gains of ~₹ 110 crore. Subsequently, PAT during the quarter was at ₹ 318.9 crore against our estimate of ₹ 267.6 crore.

Core GRMs continue to remain subdued

During the quarter, MRPL's reported GRMs came in at US\$5/bbl, in line with our estimates. Although MRPL's core operational GRMs came in marginally above estimate at US\$3.2/bbl, margins continued to remain weak due to weak product spreads in Q4FY19. Inventory gains of US\$1.8/bbl (our estimate of US\$2.2/bbl) provided some support to GRMs. Benchmark Singapore GRMs in the ongoing quarter (Q1FY20 till date) are at US\$4/bbl with ongoing weak product spreads. Hence, we believe improvement in operational performance will remain key in deciding MRPL's financials in coming quarters. Assuming lower global GRMs and product spreads, going ahead, we expect GRMs for MRPL at US\$5/bbl and US\$5.5/bbl for FY20E and FY21E, respectively.

Water shortage to impact volumes in near term

Crude throughput was at 4.3 MMT in Q4FY19, flattish QoQ and above our estimate of 4.1 MMT. However, acute shortage of fresh water in Nethravathi river, in the absence of summer showers, led to a partial shutdown of the refinery, which will impact volumes in Q1FY20. Hence, on the volume front, we believe MRPL will report crude throughput of 15.7 MMT for FY20E and 16.2 MMT for FY21E. On a technical parameter basis, MRPL has an edge over other refineries with its refining complexity number at 10, which is higher than most PSU refineries. However, the company has not delivered an improved performance on a sustainable basis due to some glitches or the other in operations.

Valuation & Outlook

The merger discussions between MRPL and HPCL are at an ongoing stage for a long time but no decision has yet been made. Clarity on valuations and merger ratio is important and awaited. On the business front, MRPL has capex plans for two major projects for further expansion of its capacity from 15 MMTPA to 18 MMTPA with upgradation of refinery to meet BS-VI norms, which is expected to improve profit on a standalone basis. However, taking into account the medium term subdued profitability, we value the stock at 5.5x FY21E EV/EBITDA multiple to arrive at a target price of ₹ 70.



Particulars

Particular	Amount
Market Capitalization (₹ Crore)	11,041.8
Total Debt (FY18) (₹ Crore)	4,577.2
Cash and Investments (FY18)	833.0
EV (₹ Crore)	14,786.0
52 week H/L	124/61
Equity capital (₹ Crore)	1,752.7
Face value (₹)	10.0

Key Highlights

- MRPL's core operational GRMs came in marginally above our estimates at US\$3.2/bbl. However, on a standalone basis, margins continued to remain weak due to weak product spreads in Q4FY19
- Acute shortage of fresh water in Nethravathi river, in the absence of summer showers, led to a partial shutdown of refinery. This is expected to impact volumes in Q1FY20
- Taking into account the medium term subdued profitability, we downgrade the stock to HOLD with a target price of ₹ 70

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Key Financial Summary

(Year-end March)	FY17	FY18	FY19	FY20E	FY21E	CAGR (FY19-21E)
Revenues (₹ crore)	59,430.5	63,083.6	72,315.1	66,551.5	68,413.5	(2.7)
EBITDA (₹ crore)	4,708.3	4,283.8	1,668.8	2,513.4	2,950.8	33.0
Net Profit (₹ crore)	3,644.8	2,249.8	320.6	999.5	1,254.3	97.8
EPS (₹)	20.8	12.8	1.8	5.7	7.2	
P/E (x)	3.0	4.9	34.4	11.0	8.8	
Price / Book (x)	1.1	1.0	1.0	0.9	0.9	
EV/EBITDA (x)	3.7	3.5	9.5	5.7	5.0	
RoCE (%)	21.6	23.2	5.7	10.5	12.2	
RoE (%)	36.2	20.4	2.9	8.5	10.0	

Source: Company, ICICI Direct Research

Exhibit 1: Variance Analysis

	Q4FY19	Q4FY19E	Q4FY18	YoY (%)	Q3FY19	QoQ (%)	Comments
Total Revenues	17,749.9	16,763.6	18,753.1	-5.3	20,249.6	-12.3	Higher volumes led to higher-than-expected revenues
Raw materials costs	16,631.7	15,719.0	17,315.0	-3.9	20,546.4	-19.1	
Employees Cost	129.4	103.0	128.5	0.8	105.3	22.9	
Other Expenses	172.6	295.4	265.3	-34.9	-297.3	-158.1	Includes forex gain of ~₹ 110 crore
Total Expenditure	16,933.8	16,117.3	17,708.7	-4.4	20,354.4	-16.8	
EBITDA	816.1	646.3	1,044.4	-21.9	-104.7	-879.2	Better-than-estimates on account of lower-than-expected operating costs and also forex gain
EBITDA margins (%)	4.6	3.9	5.6	-97 bps	-0.5	512 bps	
Depreciation	224.9	179.9	161.7	39.1	179.1	25.6	
EBIT	591.2	466.3	882.7	-33.0	-283.8	-308.3	
Interest	144.0	99.9	111.8	28.8	99.9	44.2	
Other Income	24.6	39.0	77.1	-68.1	36.8	-33.1	
Extra Ordinary Item	-3.4	0.0	0.0	NA	0.0	NA	Includes cost paid for purchase of renewable energy certificate from Indian Energy Exchange, employee benefit expense and income tax refund
PBT	468.3	405.4	847.9	-44.8	-357.2	-231.1	
Total Tax	149.5	137.8	305.8	-51.1	-89.5	-267.1	
PAT	318.9	267.6	542.1	-41.2	-267.7	-219.1	

Key Metrics

Exchange Rate (US\$/₹)	70.5	70.5	64.5	9.3	72.1	-2.2	
Oil Throughput (mmt)	4.3	4.1	4.3	-0.5	4.4	-2.1	Marginally above estimates
GRM (US\$/barrel)	5.0	5.0	7.9	-36.3	-0.6	-895.2	GRMs include inventory gain of US\$1.8/bbl, core GRMs were at US\$3.2/bbl

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY20E			FY21E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	69059.1	66,551.5	-3.6	NA	68,413.5	NA	
EBITDA	2,985.4	2,513.4	-15.8	NA	2,950.8	NA	Change in GRM and oil throughput estimates led to a decline in EBITDA estimates
EBITDA Margin (%)	4.3	3.8	-52 bps	NA	4.3	NA	
PAT	1,316.4	999.5	-24.1	NA	1,254.3	NA	
EPS (₹)	7.5	5.7	-24.0	NA	7.2	NA	

Source: Company, ICICI Direct Research

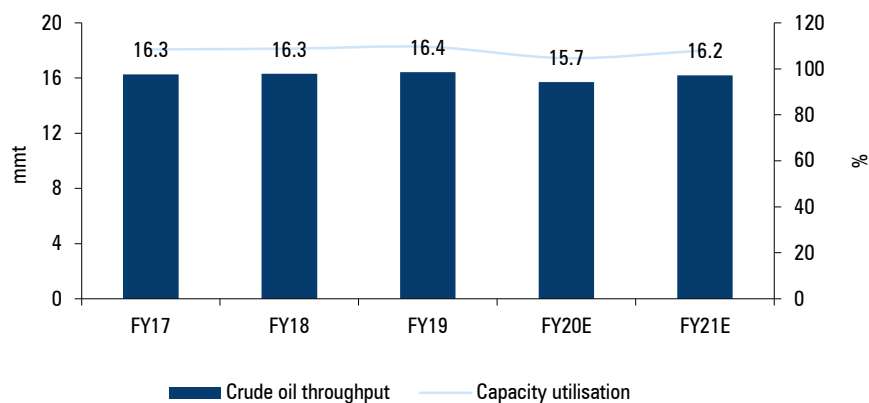
Exhibit 3: Assumptions

	Current				Earlier		Comments
	FY18	FY19	FY20E	FY21E	FY20E	FY21E	
Exchange Rate (US\$/₹)	64.5	70.0	71.5	0.0	71.5	NA	
Oil Throughput (mmt)	16.3	16.4	15.7	16.2	16.1	NA	Lowered run rate for FY20E due to partial refinery shutdown on account of water shortage
GRM (US\$/barrel)	7.5	4.1	5.0	5.5	5.5	NA	GRM estimates revised downwards on account of weak global product spreads

Source: Company, ICICI Direct Research

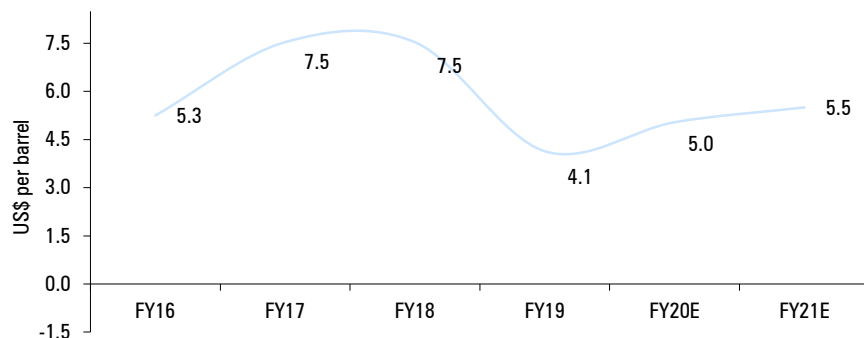
Story in charts

Exhibit 4: Volume trajectory



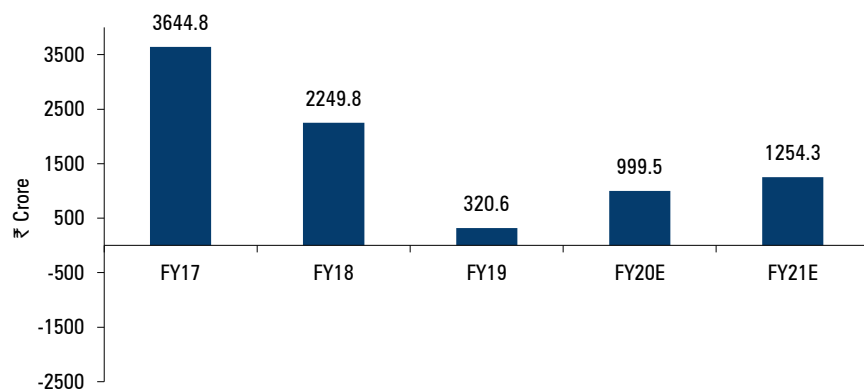
Source: Company, ICICI Direct Research

Exhibit 5: Refining margin trend



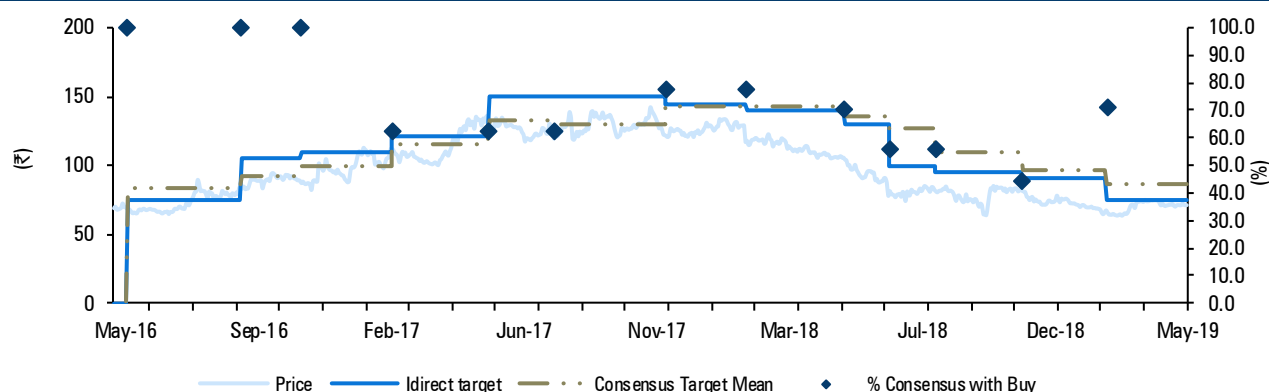
Source: Company, ICICI Direct Research

Exhibit 6: Net profit trend



Source: Company, ICICI Direct Research

Exhibit 7: Recommendation History vs. Consensus



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 8: Top 10 Shareholders

Rank	Investor Name	Filing Date	% O/S	Position	Change (m)
1	Oil and Natural Gas Corporation Ltd	31-Mar-19	71.6	1255.4	0.0
2	Hindustan Petroleum Corp Ltd	31/Mar/19	17.0	297.2	0.0
3	Life Insurance Corporation of India	31-Mar-19	1.3	22.9	-0.7
4	Aditya Birla Sun Life AMC Limited	31/Mar/19	1.1	18.7	-4.4
5	FIL Investment Management (Singapore) Ltd.	28-Feb-19	0.6	10.6	0.0
6	ICICI Prudential Asset Management Co. Ltd.	31/Mar/19	0.6	9.8	-0.1
7	The Vanguard Group, Inc.	31-Mar-19	0.4	7.7	0.0
8	Dimensional Fund Advisors, L.P.	31/Mar/19	0.2	2.6	0.0
9	Mellon Investments Corporation	31-Mar-19	0.1	2.4	0.0
10	State Street Global Advisors (UK) Ltd.	31/Mar/19	0.0	0.8	0.0

Source: Reuters, ICICI Direct Research

Exhibit 9: Recent Activity

BUYS			SELLS		
Investor name	Value (m)	Shares(m)	Investor name	Value (m)	Shares(m)
Kotak Mahindra Asset Management Company Ltd.	0.13	0.12	Aditya Birla Sun Life AMC Limited	-4.71	-4.38
The Vanguard Group, Inc.	0.04	0.03	Goldman Sachs Asset Management International	-4.00	-3.62
JM Financial Asset Management Pvt. Ltd.	0.03	0.03	DSP Investment Managers Pvt. Ltd.	-1.04	-1.13
IDFC Asset Management Company Private Limited	0.02	0.02	Life Insurance Corporation of India	-0.75	-0.69
Reliance Nippon Life Asset Management Limited	0.02	0.02	Norges Bank Investment Management (NBIM)	-0.68	-0.62

Source: Reuters, ICICI Direct Research

Exhibit 10: Shareholding Pattern

(in %)	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19
Promoter	88.6	88.6	88.6	88.6	88.6
FII	1.5	1.6	1.4	1.4	1.8
DII	3.0	3.1	3.4	3.5	3.1
Others	6.8	6.7	6.6	6.5	6.5

Source: Company, ICICI Direct Research

Financial summary

Exhibit 11: Profit and loss statement				
	₹ crore			
(Year-end March)	FY18	FY19	FY20E	FY21E
Revenue	63083.6	72315.1	66551.5	68413.5
Growth (%)	6.1	14.6	-8.0	2.8
(Inc)/(Dec) in stock in trade	-766.7	-561.6	0.0	0.0
Raw material Costs	43248.2	59039.8	51572.8	52762.9
Employee Costs	417.4	428.7	468.0	516.0
Ex. Duty & Sales Tax	14633.1	10253.0	10850.0	11000.0
Other Expenditure	1268.0	1486.5	1147.2	1183.8
Op. Expenditure	58799.8	70646.3	64038.1	65462.7
EBITDA	4283.8	1668.8	2513.4	2950.8
Growth (%)	-9.0	-61.0	50.6	17.4
Depreciation	667.5	756.8	742.0	784.2
EBIT	3616.3	912.0	1771.4	2166.6
Interest	440.5	471.8	420.9	442.2
Other Income	200.5	129.1	164.0	176.0
PBT	3376.4	569.4	1514.5	1900.4
Growth (%)	-39.0	-83.1	166.0	25.5
Tax	1126.6	248.8	514.9	646.1
Reported PAT	2249.8	320.6	999.5	1254.3
Growth (%)	-38.3	-85.8	211.8	25.5
EPS	12.8	1.8	5.7	7.2

Source: Company, ICICI Direct Research

Exhibit 12: Cash flow statement				
	₹ crore			
(Year-end March)	FY18	FY19	FY20E	FY21E
Profit after Tax	2,249.8	320.6	999.5	1,254.3
Add: Depreciation	667.5	756.8	742.0	784.2
Add: Others	429.5	150.0	150.0	150.0
Cash Profit	2,532.1	1,023.7	1,484.2	1,679.3
Increase/(Decrease) in CL	2,426.6	1,806.9	1,488.6	415.4
(Increase)/Decrease in CA	-827.1	-2,292.1	409.3	-562.2
CF from Operating Activities	4946.3	742.1	3789.4	2041.6
Purchase of Fixed Assets	993.1	1,537.0	2,000.0	2,020.0
(Inc)/Dec in Investments	-0.1	0.0	0.0	0.0
Others	0.0	0.0	1.0	1.0
CF from Investing Activities	-993.2	-1,537.0	-2,000.0	-2,020.0
Inc/(Dec) in Loan Funds	-3,963.7	250.0	250.0	250.0
Less: Dividend Paid	814.6	203.7	407.3	509.1
Inc/(Dec) in Sh. Cap. & Res.	-472.6	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0
CF from financing activities	-5,250.9	46.3	-157.3	-259.1
Change in cash Eq.	-1,297.8	-748.5	1,632.1	-237.5
Op. Cash and cash Eq.	2,130.8	833.0	84.5	1,716.6
Cl. Cash and cash Eq.	833.0	84.5	1,716.6	1,479.0

Source: Company, ICICI Direct Research

Exhibit 13: Balance sheet				
	₹ crore			
(Year-end March)	FY18	FY19	FY20E	FY21E
Source of Funds				
Equity Capital	1,752.7	1,752.7	1,752.7	1,752.7
Preference capital	0.0	0.0	0.0	0.0
Reserves & Surplus	9,280.4	9,397.3	9,989.5	10,734.7
Shareholder's Fund	11,033.1	11,150.0	11,742.2	12,487.3
Loan Funds	4,577.2	4,827.2	5,077.2	5,327.2
Deferred Tax Liability	906.2	1,056.2	1,206.2	1,356.2
Minority Interest	0.0	0.0	0.0	0.0
Source of Funds	16516.5	17033.4	18025.6	19170.7
Application of Funds				
Gross Block	16,082.9	16,582.9	17,082.9	17,582.9
Less: Acc. Depreciation	2,044.6	2,764.3	3,506.3	4,270.5
Net Block	14,038.3	13,818.5	13,576.6	13,312.4
Capital WIP	667.8	1,667.8	3,167.8	4,667.8
Total Fixed Assets	14,706.1	15,486.3	16,744.3	17,980.1
Investments	1,349.8	1,349.8	1,349.8	1,349.8
Inventories	4,734.7	5,943.7	5,470.0	5,623.0
Debtor	2,660.9	3,269.0	3,008.5	3,092.7
Cash	833.0	84.5	1,716.6	1,479.0
Loan & Advance, Other CA	1930.3	2405.3	2730.3	3055.3
Total Current assets	10158.9	11702.5	12925.3	13250.0
Current Liabilities	9251.2	11392.1	12763.3	13120.4
Provisions	447.2	113.1	230.6	288.8
Total CL and Provisions	9698.3	11505.2	12993.9	13409.2
Net Working Capital	460.6	197.3	-68.5	-159.2
Miscellaneous expense	0.0	0.0	0.0	0.0
Application of Funds	16516.5	17033.4	18025.6	19170.7

Source: Company, ICICI Direct Research

Exhibit 14: Key ratios				
	₹ crore			
(Year-end March)	FY18	FY19	FY20E	FY21E
Per share data (₹)				
Book Value	63.0	63.6	67.0	71.2
Cash per share	4.8	0.5	9.8	8.4
EPS	12.8	1.8	5.7	7.2
Cash EPS	16.6	6.1	9.9	11.6
DPS	4.0	1.0	2.0	2.5
Profitability & Operating Ratios				
EBITDA Margin (%)	6.8	2.3	3.8	4.3
PAT Margin (%)	3.6	0.4	1.5	1.8
Fixed Asset Turnover (x)	4.3	4.7	4.0	3.8
Inventory Turnover (Days)	30.3	30.0	30.0	30.0
Debtor (Days)	15.4	16.5	16.5	16.5
Current Liabilities (Days)	78.1	57.5	70.0	70.0
Return Ratios (%)				
RoE	20.4	2.9	8.5	10.0
RoCE	23.2	5.7	10.5	12.2
RoIC	24.5	5.7	11.7	13.3
Valuation Ratios (x)				
PE	4.9	34.4	11.0	8.8
Price to Book Value	1.0	1.0	0.9	0.9
EV/EBITDA	3.5	9.5	5.7	5.0
EV/Sales	0.2	0.2	0.2	0.2
Leverage & Solvency Ratios				
Debt to equity (x)	0.4	0.4	0.4	0.4
Interest Coverage (x)	8.2	1.9	4.2	4.9
Debt to EBITDA (x)	1.1	2.9	2.0	1.8
Current Ratio	1.0	1.0	1.0	1.0
Quick ratio	0.6	0.5	0.6	0.6

Source: Company, ICICI Direct Research

Exhibit 15: ICICI Direct Coverage Universe (Oil & Gas)

Sector / Company	CMP (₹)	TP (₹)	Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
					FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E
BPCL (BHAPET)	378	320	Hold	81,997	40.3	33.1	34.5	9.4	11.4	10.9	8.4	8.6	7.7	15.7	13.0	13.1	23.2	18.6	18.3
Castrol India (CASIND)	152	140	Reduce	15,035	7.2	7.9	7.4	21.2	19.3	20.5	13.4	11.8	12.6	88.3	91.0	86.1	61.6	63.1	60.3
GAIL (India) (GAIL)	342	390	Buy	77,121	13.6	15.5	20.5	25.2	22.0	16.7	15.0	12.6	10.0	6.8	11.7	14.7	6.6	9.2	11.5
Gujarat Gas (GUJGA)	164	190	Buy	11,290	3.2	4.2	6.3	50.6	38.7	26.0	18.1	14.9	13.2	12.3	15.3	16.8	13.6	15.8	19.8
Gujarat State Petro (GSPL)	176	180	Hold	9,915	8.8	11.9	14.1	20.0	14.8	12.5	11.9	11.5	8.4	13.8	11.6	15.7	11.0	13.2	13.9
Gulf Oil Lubricants (GULO)	827	850	Hold	4,100	23.7	31.9	37.0	34.9	25.9	22.3	22.1	17.1	13.6	32.5	31.5	37.2	34.2	33.9	31.6
HPCL (HINPET)	285	225	Hold	43,478	13.6	13.9	11.1	7.0	6.8	8.6	6.1	6.0	6.7	19.3	17.5	13.8	30.5	26.5	19.3
Indraprastha Gas (INDGAS)	303	300	Hold	21,210	8.2	9.6	10.8	37.1	31.6	28.1	21.4	18.5	16.5	27.2	26.5	25.6	19.5	19.1	18.6
Mahanagar Gas (MAHGAS)	895	1050	Buy	8,841	39.8	48.4	55.3	22.5	18.5	16.2	13.5	11.2	9.4	29.8	31.9	31.5	21.4	22.8	22.7
Mangalore Refinery (MRPL)	63	70	Hold	11,042	12.8	1.8	5.7	4.9	34.4	11.0	3.5	9.5	5.7	23.2	5.7	10.5	20.4	2.9	8.5
ONGC (ONGC)	171	153	Hold	219,450	16.9	24.8	22.5	10.1	6.9	7.6	5.8	3.9	4.0	7.9	13.6	12.2	9.4	12.4	10.7
Petronet LNG (PETLNG)	237	225	Hold	35,550	11.4	13.9	14.9	20.8	17.1	15.9	10.9	10.2	8.8	25.9	28.3	29.9	21.1	21.4	22.0

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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