

Near term outlook challenging...

MRPL reported a weak set of Q4FY20 numbers on the profitability front. Operating revenue increased 4.8% QoQ to ₹ 17545.1 crore while oil throughput declined 6.6% QoQ to 3.8 MMT. Reported GRMs disappointed and came in at -US\$4.5/bbl, impacted by inventory losses. Subsequently, EBITDA loss was at ₹ 1922.1 crore vs. EBITDA profit of ₹ 299.7 crore in Q3FY20, also impacted by ₹ 508.9 crore forex loss. The company reported net loss at ₹ 1596.4 crore vs. ₹ 36.6 crore loss in Q3FY20.

GRMs outlook subdued

MRPL's reported GRMs for the quarter came in at -US\$4.5/bbl. MRPL's core operational GRMs were at US\$6/bbl with inventory loss at -US\$10.5/bbl. Although on a technical parameter basis, MRPL has an edge over other refineries with its refining complexity number at 10, the company has been unable to improve its performance on a sustainable basis due to some glitches or the other in operations. In Q4FY20, Covid-19 outbreak induced lower demand impacted product prices and refining margins. In the current quarter (Q1FY21E-TD), benchmark Singapore GRMs are in negative zone. Going ahead, we believe MRPL's core operational performance will remain subdued affecting the financials in coming quarters. We estimate core GRMs at US\$3.6/bbl and US\$3.9/bbl for FY21E and FY22E, respectively.

Crude throughput to decline in Q1FY21E

MRPL's crude throughput for the quarter was at 3.8 MMT, down 6.6% QoQ. In the current quarter, extended lockdown leading to lower demand has affected MRPL's capacity utilisation. Accordingly, we estimate lower throughput for H1FY21E and steady throughput from Q3FY21E onwards. The FY20 performance was affected by shortage of water supply. In order to mitigate the risk of water supply shortage, MRPL is setting up a seawater desalination plant at an estimated cost of ₹ 620 crore, which is expected to be commissioned by Q3FY21E. Hence, we expect crude throughput of 13.7 MMT and 16.4 MMT for FY21E and FY22E, respectively.

Valuation & Outlook

The nationwide lockdown due to spread of Covid-19 has reduced capacity utilisation of the company and will impact its near term performance. On the business front, MRPL plans to augment its capacity from 15 MMTPA to 18 MMTPA over the next few years. However, the last expansion project to increase complexity as well as capacity did not achieve desired results. Also, weak global product spreads will affect refining margins thereby affecting profitability. MRPL's investment in OMPL has also not paid off. It continues to be a drag at the consolidated level. We downgrade the stock from REDUCE to **SELL** with a target price of ₹ 25/share (~0.5x FY22E BV).

Key Financial Summary

| (Year-end March) | FY18 | FY19 | FY20E | FY21E | FY22E | CAGR (FY19-22E) |
|----------------------|----------|----------|-----------|----------|----------|-----------------|
| Revenues (₹ crore) | 63,083.6 | 72,315.1 | 60,751.5 | 41,301.7 | 57,095.3 | (11.1) |
| EBITDA (₹ crore) | 4,283.8 | 1,668.8 | (2,534.7) | 1,957.7 | 1,999.1 | 9.4 |
| Net Profit (₹ crore) | 2,223.9 | 331.9 | (2,707.6) | 228.1 | 167.5 | (29.0) |
| EPS (₹) | 12.7 | 1.9 | (15.4) | 1.3 | 1.0 | |
| P/E (x) | 2.5 | 16.9 | (2.1) | 24.6 | 33.5 | |
| Price / Book (x) | 0.5 | 0.5 | 0.7 | 0.7 | 0.7 | |
| EV/EBITDA (x) | 2.2 | 7.9 | (6.1) | 7.8 | 6.9 | |
| RoCE (%) | 23.2 | 4.9 | (18.3) | 5.7 | 5.6 | |
| RoE (%) | 20.2 | 3.1 | (33.8) | 2.8 | 2.0 | |

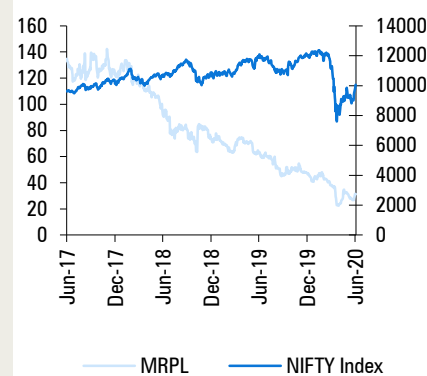
Source: Company, ICICI Direct Research



Particulars

| Particular | Amount |
|------------------------------|----------|
| Market Capitalization (₹ Cr) | 5,608.5 |
| Total Debt (FY 19) (₹ Crore) | 8,077.7 |
| Cash and Investments (FY) | 487.5 |
| EV (₹ Crore) | 13,198.6 |
| 52 week H/L | 63/21 |
| Equity capital (₹ Crore) | 1,752.7 |
| Face value (₹) | 10.0 |

Price Chart



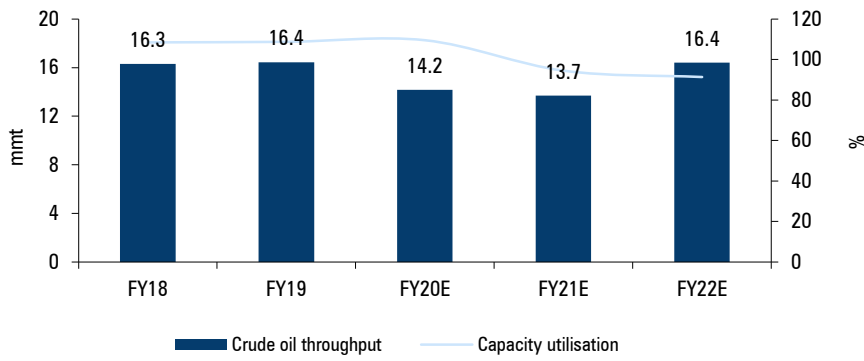
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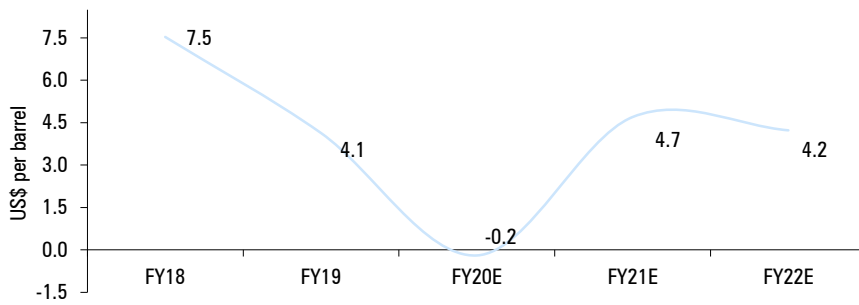
Story in charts

Exhibit 1: Volume trajectory



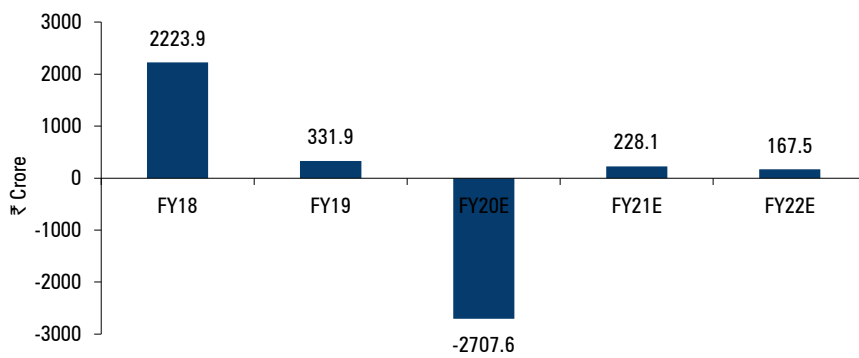
Source: Company, ICICI Direct Research

Exhibit 2: Refining margin trend



Source: Company, ICICI Direct Research

Exhibit 3: Net profit trend



Source: Company, ICICI Direct Research

Financial summary

| Exhibit 4: Profit and loss statement | | | | |
|--------------------------------------|----------------|----------------|----------------|----------------|
| | ₹ crore | | | |
| (Year-end March) | FY19 | FY20E | FY21E | FY22E |
| Revenue | 72315.1 | 60751.5 | 41301.7 | 57095.3 |
| Growth (%) | 14.6 | -16.0 | -32.0 | 38.2 |
| (Inc)/(Dec) in stock in trad | -561.6 | 1347.4 | 0.0 | 0.0 |
| Raw material Costs | 59039.8 | 49976.4 | 27778.0 | 43099.2 |
| Employee Costs | 428.7 | 440.1 | 516.0 | 540.0 |
| Ex. Duty & Sales Tax | 10253.0 | 9749.6 | 10000.0 | 10200.0 |
| Other Expenditure | 1486.5 | 1772.7 | 1050.1 | 1257.1 |
| Op. Expenditure | 70646.3 | 63286.2 | 39344.1 | 55096.3 |
| EBITDA | 1668.8 | -2534.7 | 1957.7 | 1999.1 |
| Growth (%) | -61.0 | -251.9 | -177.2 | 2.1 |
| Depreciation | 756.8 | 783.2 | 792.0 | 847.2 |
| EBIT | 912.0 | -3317.9 | 1165.6 | 1151.9 |
| Interest | 471.8 | 742.6 | 1012.7 | 1096.0 |
| Other Income | 140.5 | 105.0 | 152.0 | 168.0 |
| PBT | 580.8 | -3955.4 | 304.9 | 223.9 |
| Growth (%) | -82.7 | -781.1 | -107.7 | -26.6 |
| Tax | 248.8 | -1247.8 | 76.8 | 56.4 |
| Reported PAT | 331.9 | -2707.6 | 228.1 | 167.5 |
| Growth (%) | -85.1 | -915.7 | -108.4 | -26.6 |
| EPS | 1.9 | -15.4 | 1.3 | 1.0 |

Source: Company, ICICI Direct Research

| Exhibit 5: Cash flow statement | | | | |
|--------------------------------|-----------------|-----------------|-----------------|----------------|
| | ₹ crore | | | |
| (Year-end March) | FY19 | FY20E | FY21E | FY22E |
| Profit after Tax | 331.9 | -2,707.6 | 228.1 | 167.5 |
| Add: Depreciation | 756.8 | 783.2 | 792.0 | 847.2 |
| Add: Others | 109.4 | -1,015.5 | 150.0 | 150.0 |
| Cash Profit | 994.4 | -2,940.0 | 1,170.1 | 1,164.7 |
| Increase/(Decrease) in CI | -2,327.3 | -336.1 | 154.4 | 2,546.2 |
| (Increase)/Decrease in C/ | -896.5 | 2,171.1 | 1,084.8 | -1,867.3 |
| CF from Operating Acti | -2025.7 | -1105.0 | 2409.2 | 1843.5 |
| Purchase of Fixed Assets | 1,029.3 | 1,281.1 | 2,020.0 | 520.0 |
| (Inc)/Dec in Investments | -152.8 | 0.0 | 0.0 | 0.0 |
| Others | 0.0 | 1.0 | 1.0 | 1.0 |
| CF from Investing Acti | -1,182.2 | -1,281.1 | -2,020.0 | -520.0 |
| Inc/(Dec) in Loan Funds | 3,500.4 | 2,050.0 | 2,250.0 | -400.0 |
| Less: Dividend Paid | 203.7 | 0.0 | 0.0 | 0.0 |
| Inc/(Dec) in Sh. Cap. & Re | -434.3 | 0.0 | 0.0 | 0.0 |
| Others | 0.0 | 0.0 | 0.0 | 0.0 |
| CF from financing activ | 2,862.4 | 2,050.0 | 2,250.0 | -400.0 |
| Change in cash Eq. | -345.5 | -336.1 | 2,639.2 | 923.5 |
| Op. Cash and cash Eq. | 833.0 | 487.5 | 151.4 | 2,790.6 |
| Cl. Cash and cash Eq. | 487.5 | 151.4 | 2,790.6 | 3,714.1 |

Source: Company, ICICI Direct Research; *calculated

| Exhibit 6: Balance sheet | | | | |
|-----------------------------|----------------|----------------|----------------|----------------|
| | ₹ crore | | | |
| (Year-end March) | FY19 | FY20E | FY21E | FY22E |
| 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 | 8,974.4 | 6,266.7 | 6,494.8 | 6,662.2 |
| Shareholder's Fund | 10,727.0 | 8,019.4 | 8,247.4 | 8,414.9 |
| Loan Funds | 8,077.7 | 10,127.7 | 12,377.7 | 11,977.7 |
| Deferred Tax Liability | 1,015.5 | 0.0 | 150.0 | 300.0 |
| Minority Interest | 0.0 | 0.0 | 0.0 | 0.0 |
| Source of Funds | 19820.2 | 18147.0 | 20775.1 | 20692.6 |
| Application of Funds | | | | |
| Gross Block | 16,761.1 | 17,261.1 | 17,761.1 | 19,761.1 |
| Less: Acc. Depreciation | 2,764.9 | 3,514.7 | 4,286.7 | 5,113.9 |
| Net Block | 13,996.2 | 13,746.4 | 13,474.4 | 14,647.1 |
| Capital WIP | 982.5 | 1,730.2 | 3,230.2 | 1,730.2 |
| Total Fixed Assets | 14,978.7 | 15,476.6 | 16,704.6 | 16,377.3 |
| Investments | 1,502.6 | 1,502.6 | 1,502.6 | 1,502.6 |
| Inventories | 5,811.0 | 3,890.0 | 3,394.7 | 4,692.8 |
| Debtor | 2,322.3 | 1,997.3 | 1,357.9 | 1,877.1 |
| Cash | 487.5 | 151.4 | 2,790.6 | 3,714.1 |
| Loan & Advance, Other C | 2089.1 | 2164.1 | 2214.1 | 2264.1 |
| Total Current assets | 10710.0 | 8202.8 | 9757.2 | 12548.1 |
| Current Liabilities | 6844.7 | 6758.9 | 6789.3 | 9385.5 |
| Provisions | 526.3 | 276.1 | 400.0 | 350.0 |
| Total CL and Provisions | 7371.0 | 7035.0 | 7189.3 | 9735.5 |
| Net Working Capital | 3338.9 | 1167.8 | 2567.9 | 2812.6 |
| Miscellaneous expense | 0.0 | 0.0 | 0.0 | 0.0 |
| Application of Funds | 19820.2 | 18147.0 | 20775.1 | 20692.6 |

Source: Company, ICICI Direct Research

| Exhibit 7: Key ratios | | | | |
|---|---------|-------|-------|-------|
| | ₹ crore | | | |
| (Year-end March) | FY19 | FY20E | FY21E | FY22E |
| Per share data (₹) | | | | |
| Book Value | 61.2 | 45.8 | 47.1 | 48.0 |
| Cash per share | 2.8 | 0.9 | 15.9 | 21.2 |
| EPS | 1.9 | -15.4 | 1.3 | 1.0 |
| Cash EPS | 6.2 | -11.0 | 5.8 | 5.8 |
| DPS | 1.0 | 0.0 | 0.0 | 0.0 |
| Profitability & Operating Ratios | | | | |
| EBITDA Margin (%) | 2.3 | -4.2 | 4.7 | 3.5 |
| PAT Margin (%) | 0.5 | -4.5 | 0.6 | 0.3 |
| Fixed Asset Turnover (x) | 4.8 | 3.9 | 2.5 | 3.5 |
| Inventory Turnover (Days) | 30.9 | 28.0 | 30.0 | 30.0 |
| Debtor (Days) | 11.7 | 12.0 | 12.0 | 12.0 |
| Current Liabilities (Days) | 42.3 | 60.0 | 60.0 | 60.0 |
| Return Ratios (%) | | | | |
| RoE | 3.1 | -33.8 | 2.8 | 2.0 |
| RoCE | 4.9 | -18.3 | 5.7 | 5.6 |
| RoIC | 5.0 | -18.4 | 6.5 | 6.9 |
| Valuation Ratios (x) | | | | |
| PE | 16.9 | -2.1 | 24.6 | 33.5 |
| Price to Book Value | 0.5 | 0.7 | 0.7 | 0.7 |
| EV/EBITDA | 7.9 | -6.1 | 7.8 | 6.9 |
| EV/Sales | 0.2 | 0.3 | 0.4 | 0.2 |
| Leverage & Solvency Ratios | | | | |
| Debt to equity (x) | 0.8 | 1.3 | 1.5 | 1.4 |
| Interest Coverage (x) | 1.9 | -4.5 | 1.2 | 1.1 |
| Debt to EBITDA (x) | 4.8 | -4.0 | 6.3 | 6.0 |
| Current Ratio | 1.5 | 1.2 | 1.4 | 1.3 |
| Quick ratio | 0.7 | 0.6 | 0.9 | 0.8 |

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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