

## Inventory gains lift profits; subdued outlook...

MRPL' Q4FY21 performance was driven by higher throughput as well as inventory gains. Operating revenue increased 47.1% QoQ to ₹ 20788.1 crore while oil throughput also increased 30.8% QoQ to 4 MMT due to improvement in demand of petroleum products QoQ. Reported GRMs were boosted by inventory gains and came in at US\$6.5/bbl. Subsequently, EBITDA was at ₹ 845.9 crore, 4.8x QoQ. Reported PAT was at ₹ 328.3 crore vs. ₹ 75.6 crore loss in Q3FY21.

## Core GRMs still weak; inventory gain support margins

MRPL's reported GRMs for the quarter came in at US\$6.5/bbl. MRPL's core GRMs were US\$2/bbl and inventory gain was at US\$4.5/bbl. Although, on 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 the past. In Q4FY21, global product spreads, while improved QoQ, were still at low levels. Going ahead, we believe MRPL's core operational performance will remain subdued as core refining margins are estimated to remain lower. We estimate core GRMs at US\$3.5/bbl and US\$4/bbl for FY22E and FY23E, respectively.

## Demand decline to impact crude throughput

MRPL's crude throughput for the quarter was at 4 MMT, up 30.8% QoQ as demand gradually picked up. In the current quarter, second wave of Covid-19 has affected demand for petroleum products which is impacting capacity utilisation of MRPL. Accordingly, we estimate lower throughput for H1FY22E and steady throughput from H2FY22E onwards. We expect throughput at 15 MMT and 16 MMT for FY22E and FY23E respectively.

## Valuation & Outlook

MRPL's capacity utilisation improved QoQ with increasing demand and surpassed pre-Covid level. However, capacity utilisation reduced during the current quarter (Q1FY22E-TD) due to declining demand. On the business front, MRPL has plans to augment its capacity from 15 MMTPA to 18 MMTPA over the next few years. However, last expansion project to increase complexity as well as capacity did not achieve desired results. Global product spreads have not fully recovered yet and will continue to affect refining margins. MRPL's previous investment in OMPL have not paid off. OMPL remains a loss making entity and continues to be a drag on consolidated level. Also, debt reduction will be a key monitorable in near term. We roll over our valuations to FY23E and maintain **SELL** on the stock. We value MRPL standalone refinery at ₹ 42/share (1x FY23E BV) (we assign nil value to OMPL investment) to arrive at TP of ₹ 42 (previous TP: ₹ 22).

### Key Financial Summary

(Year-end March)	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY20-23E)
Revenues (₹ crore)	72,315.1	60,751.5	51,019.2	80,532.6	85,003.1	11.8
EBITDA (₹ crore)	1,668.8	(2,534.7)	741.5	1,037.6	1,606.2	(185.9)
Net Profit (₹ crore)	331.9	(2,740.3)	(240.5)	(318.2)	64.3	(128.6)
EPS (₹)	1.9	(15.6)	(1.4)	(1.8)	0.4	
P/E (x)	28.0	(3.4)	(38.6)	(29.2)	144.4	
Price / Book (x)	0.9	1.2	1.2	1.3	1.3	
EV/EBITDA (x)	10.1	(7.8)	32.8	23.6	15.4	
RoCE (%)	4.9	(18.2)	(0.5)	0.9	3.0	
RoE (%)	3.1	(35.1)	(3.2)	(4.4)	0.9	

Source: Company, ICICI Direct Research



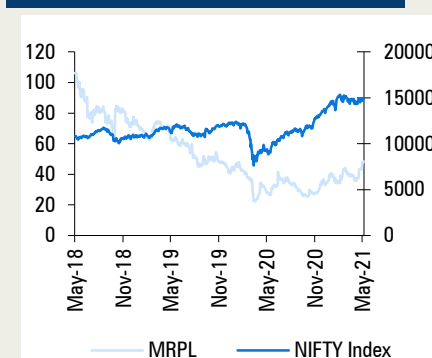
### Particulars

Particulars	Amount
Market Capitalization (₹ Crore)	9,289.1
Total Debt (FY 20) (₹ Crore)	10,387.6
Cash and Investments (FY 20)	28.0
EV (₹ Crore)	19,648.7
52 week H/L	55/25
Equity capital (₹ Crore)	1,752.7
Face value (₹)	10.0

### Key risks to our call

- Faster than expected recovery in demand leading to higher revenues
- Faster than estimated recovery in product spreads leading to higher refining margins, thereby better earnings

### Price Performance



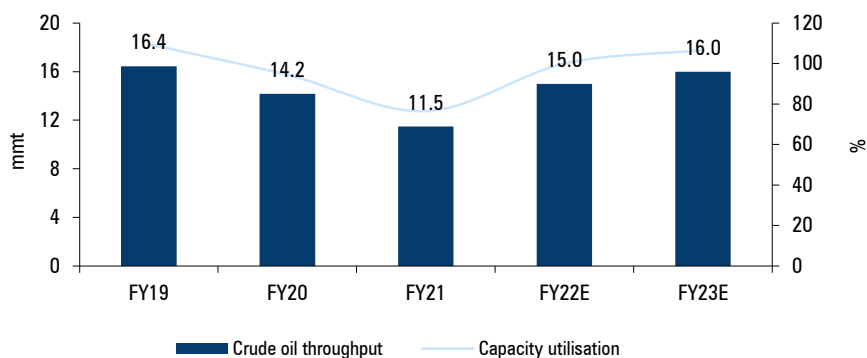
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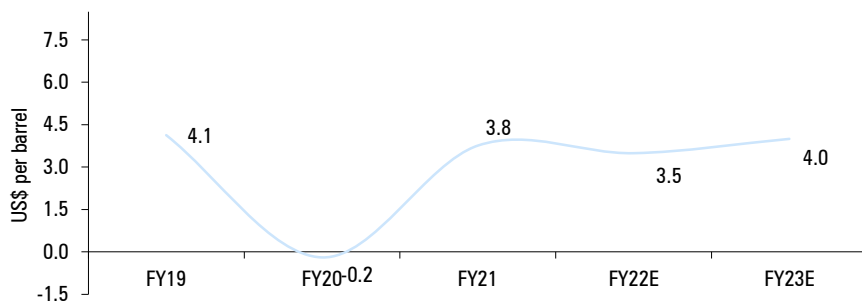
## Story in charts

Exhibit 1: Volume trajectory



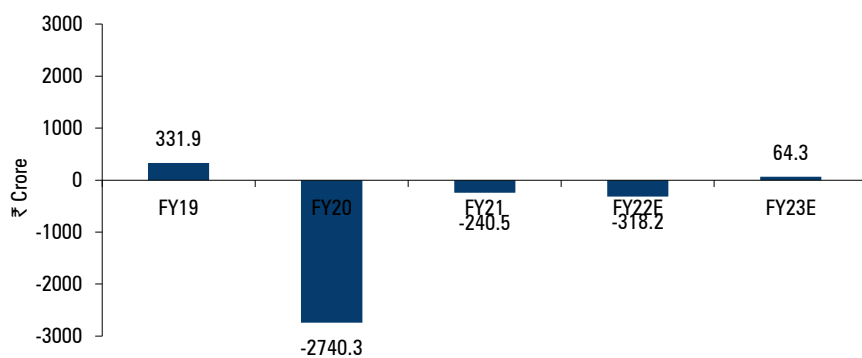
Source: Company, ICICI Direct Research

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)	FY20	FY21E	FY22E	FY23E
<b>Revenue</b>	<b>60751.5</b>	<b>51019.2</b>	<b>80532.6</b>	<b>85003.1</b>
Growth (%)	-16.0	-16.0	57.8	5.6
(Inc)/(Dec) in stock in trad	1347.4	-1202.8	0.0	0.0
Raw material Costs	49976.4	30600.4	50221.1	53569.2
Employee Costs	440.1	510.9	540.0	540.0
Ex. Duty & Sales Tax	9749.6	18836.8	27500.0	28000.0
Other Expenditure	1772.7	1532.4	1234.0	1287.7
Op. Expenditure	63286.2	50277.7	79495.0	83396.9
<b>EBITDA</b>	<b>-2534.7</b>	<b>741.5</b>	<b>1037.6</b>	<b>1606.2</b>
Growth (%)	-251.9	-129.3	39.9	54.8
Depreciation	783.2	853.0	841.1	929.3
EBIT	-3317.9	-111.5	196.4	676.9
Interest	744.7	352.1	761.9	758.9
Other Income	105.1	118.4	140.0	168.0
PBT	-3957.5	-345.1	-425.4	86.0
Growth (%)	-781.4	-91.3	23.3	-120.2
Tax	-1217.2	-104.6	-107.2	21.7
<b>Reported PAT</b>	<b>-2740.3</b>	<b>-240.5</b>	<b>-318.2</b>	<b>64.3</b>
Growth (%)	-925.5	-91.2	32.3	-120.2
<b>EPS</b>	<b>-15.6</b>	<b>-1.4</b>	<b>-1.8</b>	<b>0.4</b>

Source: Company, ICICI Direct Research

Exhibit 5: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Profit after Tax	-2,740.3	-240.5	-318.2	64.3
Add: Depreciation	783.2	853.0	841.1	929.3
Add: Others	-1,015.5	0.0	0.0	0.0
Cash Profit	-2,972.7	612.5	522.9	993.6
Increase/(Decrease) in CI	-149.2	736.6	1,217.0	955.7
(Increase)/Decrease in C/	2,568.6	-3,609.4	-390.4	-664.4
<b>CF from Operating Acti</b>	<b>-553.3</b>	<b>-2260.3</b>	<b>1349.5</b>	<b>1284.9</b>
Purchase of Fixed Assets	1,774.0	1,216.1	1,520.0	1,520.0
(Inc)/Dec in Investments	-255.0	-1,217.0	0.0	0.0
Others	1.0	1.0	1.0	1.0
<b>CF from Investing Acti</b>	<b>-2,029.0</b>	<b>-2,433.1</b>	<b>-1,520.0</b>	<b>-1,520.0</b>
Inc/(Dec) in Loan Funds	2,309.9	4,750.0	200.0	300.0
Less: Dividend Paid	0.0	0.0	0.0	0.0
Inc/(Dec) in Sh. Cap. & Re	-187.2	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0
<b>CF from financing activ</b>	<b>2,122.8</b>	<b>4,750.0</b>	<b>200.0</b>	<b>300.0</b>
Change in cash Eq.	-459.5	56.6	29.5	64.9
Op. Cash and cash Eq.	487.5	28.0	84.6	114.1
<b>Cl. Cash and cash Eq.</b>	<b>28.0</b>	<b>84.6</b>	<b>114.1</b>	<b>179.0</b>

Source: Company, ICICI Direct Research; \*calculated

Exhibit 6: Balance sheet				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
<b>Source of Funds</b>				
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	6,046.9	5,806.4	5,488.1	5,552.5
Shareholder's Fund	7,799.5	7,559.0	7,240.8	7,305.1
Loan Funds	10,387.6	15,137.6	15,337.6	15,637.6
Deferred Tax Liability	0.0	0.0	0.0	0.0
Minority Interest	0.0	0.0	0.0	0.0
<b>Source of Funds</b>	<b>18187.1</b>	<b>22696.6</b>	<b>22578.4</b>	<b>22942.7</b>
<b>Application of Funds</b>				
Gross Block	17,749.2	18,249.2	20,249.2	22,249.2
Less: Acc. Depreciation	3,509.9	4,275.9	5,097.0	6,006.3
Net Block	14,239.3	13,973.4	15,152.2	16,242.9
Capital WIP	1,730.2	2,359.3	1,859.3	1,359.3
Total Fixed Assets	15,969.5	16,332.6	17,011.5	17,602.2
Investments	1,757.7	2,974.7	2,974.7	2,974.7
Inventories	3,890.0	6,609.9	6,619.1	6,986.6
Debtor	1,042.3	2,416.5	2,647.6	2,794.6
Cash	28.0	84.6	114.1	179.0
Loan & Advance, Other C	2721.6	2236.9	2386.9	2536.9
Total Current assets	7681.9	11347.8	11767.8	12497.1
Current Liabilities	6945.8	7291.7	8825.5	9781.2
Provisions	276.1	666.8	350.0	350.0
Total CL and Provisions	7221.8	7958.5	9175.5	10131.2
Net Working Capital	460.0	3389.4	2592.3	2365.9
Miscellaneous expense	0.0	0.0	0.0	0.0
<b>Application of Funds</b>	<b>18187.1</b>	<b>22696.6</b>	<b>22578.4</b>	<b>22942.7</b>

Source: Company, ICICI Direct Research

Exhibit 7: Key ratios				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
<b>Per share data (₹)</b>				
Book Value	44.5	43.1	41.3	41.7
Cash per share	0.2	0.5	0.7	1.0
EPS	-15.6	-1.4	-1.8	0.4
Cash EPS	-11.2	3.5	3.0	5.7
DPS	0.0	0.0	0.0	0.0
<b>Profitability &amp; Operating Ratios</b>				
EBITDA Margin (%)	-4.2	1.5	1.3	1.9
PAT Margin (%)	-4.5	-0.5	-0.4	0.1
Fixed Asset Turnover (x)	3.8	3.1	4.7	4.8
Inventory Turnover (Days)	23.2	30.0	30.0	30.0
Debtor (Days)	6.3	12.0	12.0	12.0
Current Liabilities (Days)	50.7	60.0	40.0	42.0
<b>Return Ratios (%)</b>				
RoE	-35.1	-3.2	-4.4	0.9
RoCE	-18.2	-0.5	0.9	3.0
RoIC	-18.3	-0.5	0.9	3.0
<b>Valuation Ratios (x)</b>				
PE	-3.4	-38.6	-29.2	144.4
Price to Book Value	1.2	1.2	1.3	1.3
EV/EBITDA	-7.8	32.8	23.6	15.4
EV/Sales	0.3	0.5	0.3	0.3
<b>Leverage &amp; Solvency Ratios</b>				
Debt to equity (x)	1.3	2.0	2.1	2.1
Interest Coverage (x)	-4.5	-0.3	0.3	0.9
Debt to EBITDA (x)	-4.1	20.4	14.8	9.7
Current Ratio	1.1	1.4	1.3	1.2
Quick ratio	0.5	0.6	0.6	0.5

Source: Company, ICICI Direct Research

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Reduce: -15% to -5%;

Sell: <-15%



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