

BSE SENSEX 32,029
S&P CNX 9,915

CMP: INR127 TP: INR113(-11%) Downgrade to Sell

Motilal Oswal values your support in the Asiamoney Brokers Poll 2017 for India Research, Sales and Trading team. We request your ballot.



Bloomberg	MRPL IN
Equity Shares (m)	1,753
M.Cap.(INRb)/(USDb)	236.8 / 3.5
52-Week Range (INR)	143 / 74
1, 6, 12 Rel. Per (%)	-3/7/43
Avg Val, INRm	186
Free float (%)	11.4

Financials & Valuations (INR b)

Y/E Mar	2017	2018E	2019E
Net Sales	432.1	433.3	488.2
EBITDA	47.1	35.3	40.3
PAT	25.9	16.5	20.6
EPS (INR)	14.8	9.4	11.7
Gr. (%)	95.1	(36.2)	24.4
BV/Sh (INR)	57.5	64.7	73.7
RoE (%)	31.4	15.5	17.0
RoCE (%)	19.6	11.6	13.6
P/E (x)	8.6	13.4	10.8
P/BV (x)	2.2	2.0	1.7

Estimate change

TP change

Rating change

EBITDA impacted by inventory loss; core GRM at USD7.07/bbl

- MRPL's 1QFY18 EBITDA of INR5.8b (excl. forex gain of INR315m; -52% YoY, -63% QoQ) came in significantly below our estimate of INR7.5b due to inventory loss of INR4.4b (USD2.33/bbl) and higher opex (USD3.3/bb) due to shut down. While interest cost came in at INR1.1b (est. of INR1.2b, -26% YoY, -12% QoQ), depreciation stood at INR1.6b (est. INR1.9b; -4% YoY/QoQ). Other income of INR204m (-91% YoY, -45% QoQ) missed our estimate of INR584m. Effective tax rate stood at 29.5% v/s 33% in 4QFY17 and 37% in 1QFY17. Adj. PAT of INR2.3b (-67% YoY, -73% QoQ) was significantly below our estimate of INR3.3b.
- Core GRM at USD7.07/bbl:** Including the inventory impact, the company reported GRM of USD4.74/bbl (est. of USD5.5) in 1QFY18 v/s USD5.29/bbl in the year-ago period. Core GRM stood at USD7.07/bbl v/s benchmark Singapore GRM of USD6.4/bbl. Inventory loss stood at USD2.33/bbl in 1QFY18 v/s gain of USD4.72/bbl in 1QFY17.
- Crude throughput stood at 3.98mmt** (-6% YoY, -3% QoQ), implying 106% utilization in the quarter, as against throughput of 3.66mmt (98% utilization) in 1QFY17.
- Valuation and view:** We believe that the refinery should be able to report GRM of USD6.2/6.5/bbl in FY18/19. The stock trades at 10.8x FY19E EPS of INR11.7 and EV of 5.8x FY19E EBITDA. We value the stock at EV of 5.5x FY19E EBITDA to arrive at a fair value of INR97/share for the standalone refinery and add INR16 for OMPL. Our fair value stands at INR113. Peak valuations leave no room for upside, in our view. **Downgrade to Sell.**

Standalone - Quarterly earning model

Y/E March	FY17				FY18				FY17	FY18E	(INR Million)	
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			FY18 1QE	Var. vs est
Net Sales	84,288	99,690	114,753	133,349	102,624	109,409	110,241	111,074	432,079	433,349	106,126	-3%
YoY Change (%)	-25.5	-2.5	30.1	43.5	21.8	9.7	-3.9	-16.7	9.0	0.3	25.9	
EBITDA	12,206	7,855	11,476	15,540	5,827	9,737	9,809	9,881	47,076	35,253	7,562	-23%
Margins (%)	14.5	7.9	10.0	11.7	5.7	8.9	8.9	8.9	10.9	8.1	7.1	
Depreciation	1,703	1,681	1,702	1,703	1,637	1,896	1,896	1,896	6,788	7,325	1,896	-14%
Interest	1,459	1,115	1,395	1,219	1,074	1,263	1,263	1,263	5,188	4,864	1,263	-15%
Other Income	2,295	926	636	375	204	579	579	579	4,232	1,941	584	-65%
PBT before EO expense	11,340	5,984	9,015	12,993	3,320	7,157	7,228	7,300	39,332	25,005	4,987	-33%
Extra-Ord expense	0	0	0	-15,973	0	0	0	0	-15,973	0	0	
PBT	11,340	5,984	9,015	28,966	3,320	7,157	7,228	7,300	55,305	25,005	4,987	-33%
Tax	4,155	1,826	3,355	9,542	980	2,385	2,409	2,433	18,877	8,207	1,662	-41%
Rate (%)	37	31	37	33	30	33	33	33	34	33	33	
Reported PAT	7,185	4,159	5,660	19,424	2,340	4,771	4,819	4,867	36,428	16,798	3,325	-30%
Adj. PAT	7,185	4,159	5,660	8,713	2,340	4,771	4,819	4,867	25,907	16,798	3,325	-30%
YoY Change (%)	36.0	-146.5	91.8	-35.5	-67.4	14.7	-14.9	-44.1	98.3	-35.2	-53.7	
Margins (%)	8.5	4.2	4.9	6.5	2.3	4.4	4.4	4.4	6.0	3.9	3.1	
Key Assumptions												
Refining throughput (mmt)	3.7	4.0	4.4	4.2	4.0	4.0	4.0	4.0	16.3	16.0	4.0	-1%
Core GRM (USD/bbl)	5.3	5.5	5.1	8.1	7.1	6.4	6.4	6.4	6.0	6.6	5.5	27%

E: MOSL Estimates

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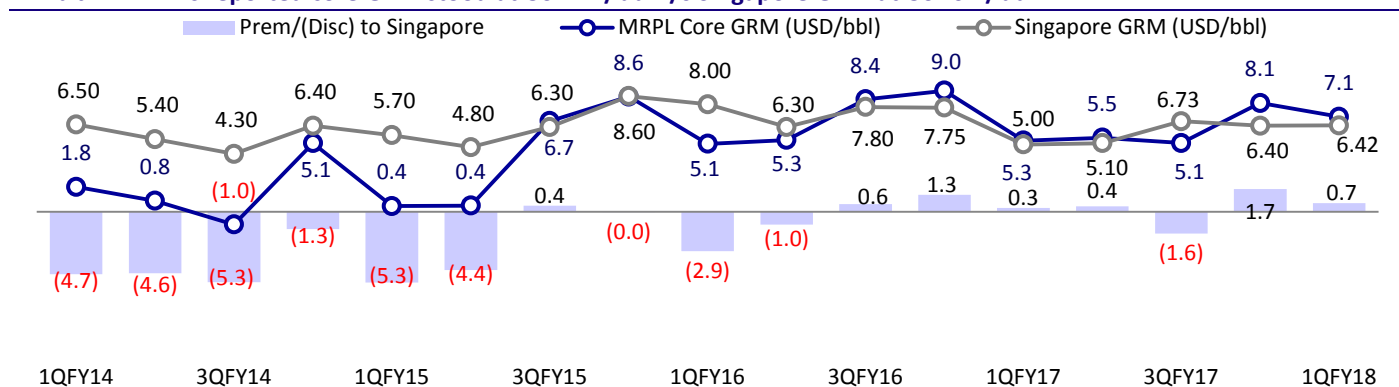
Investors are advised to refer through important disclosures made at the last page of the Research Report.

Motilal Oswal research is available on www.motilalosal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

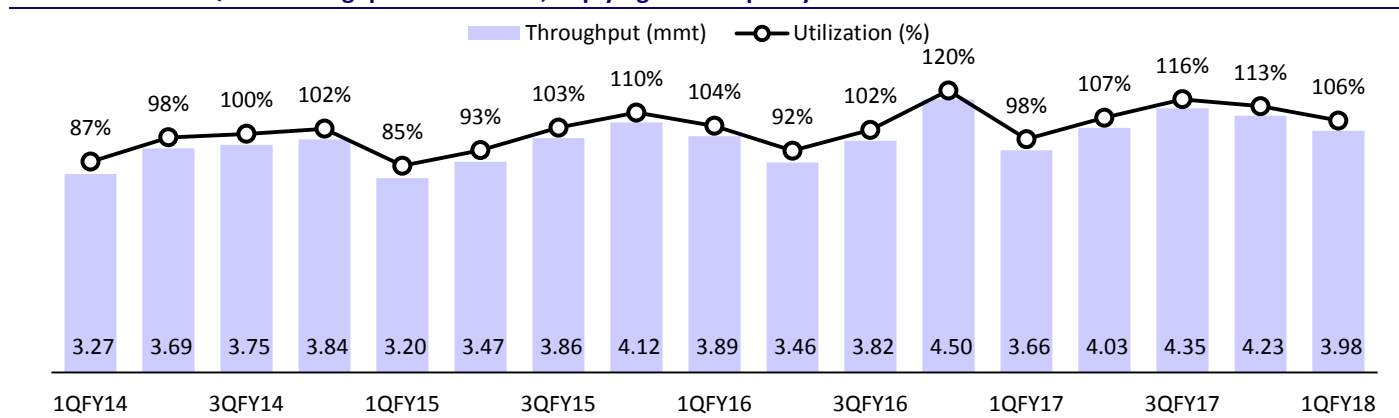
Exhibit 1: MRPL -- Key Operating and Financial Performance

(INR million)	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	YoY(%)	QoQ(%)
Key Parameters											
Exchange rate (INR/USD)	63.5	64.9	65.9	67.5	66.9	67.0	67.4	67.2	64.4	-4%	-4%
Crude cost (USD/bbl)	54.1	62.2	41.5	33.8	36.7	45.4	45.6	54.1	50.2	37%	-7%
Throughput (mmt)	3.9	3.5	3.8	4.5	3.7	4.0	4.4	4.2	4.0	9%	-6%
GRM (USD/bbl)	5.1	5.3	8.4	9.0	5.3	5.5	5.1	8.1	7.1	34%	-13%
Singapore GRM (USD/bbl)	8.0	6.3	7.8	7.8	5.0	5.1	6.7	6.4	6.4	28%	0%
Premium / (disc.) (USD/bbl)	(2.9)	(1.0)	0.6	1.3	0.3	0.4	(1.6)	1.7	0.7	124%	-62%
Key Financials											
Net Sales	113,148	102,211	88,187	92,929	84,288	99,690	114,753	133,349	102,624	22%	-23%
Less: Expenses	105,954	111,353	83,721	77,565	72,082	91,835	103,277	117,808	96,797	34%	-18%
EBITDA	7,194	-9,142	4,466	15,364	12,206	7,855	11,476	15,540	5,827	-52%	-63%
EBITDA Margin (%)	6.36%	-8.94%	5.06%	16.53%	14.48%	7.88%	10.00%	11.65%	5.68%		
Depreciation	1,482	1,593	1,596	2,452	1,703	1,681	1,702	1,703	1,637	-4%	-4%
Other Income	2,140	2,402	1,636	2,394	2,295	926	636	375	204	-91%	-45%
Interest	1,223	1,627	1,555	1,462	1,459	1,115	1,395	1,219	1,074	-26%	-12%
PBT b/f exceptional	6,629	-9,961	2,951	13,845	11,340	5,984	9,015	12,993	3,320	-71%	-74%
Forex gain/(loss)	-3,103	-7,026	-1,631	-143	-3,631	1,585	-1,597	3,050	315		
Exceptionals	1,542	205	6	77	0	0	0	(15,973)	0		
PBT	6,629	-9,961	2,951	13,845	11,340	5,984	9,015	12,993	3,320	-71%	-74%
Income tax	-1,032	1,032	0	-343	-4,155	-1,826	-3,355	-9,542	-980		
Reported PAT	5,597	-8,929	2,951	13,501	7,185	4,159	5,660	3,451	2,340	-67%	-32%
PAT Margin (%)	4.9%	-8.7%	3.3%	14.5%	8.5%	4.2%	4.9%	2.6%	2.3%		
EPS (INR)	3.19	(5.09)	1.68	7.70	4.10	2.37	3.23	1.97	1.34		

Source: Company, MOSL

Exhibit 2: MRPL's reported core GRM stood at USD7.1/bbl v/s Singapore GRM at USD6.4/bbl

Source: Company, MOSL

Exhibit 3: MRPL 1QFY18 throughput at 3.98mmt, implying 106% capacity utilization

Source: Company, MOSL

Valuation and view

- The issue of outstanding payable to Iran and capex is now behind us. Thus, we expect the company to generate free cash flow in FY18/19.
- The refinery is already operating above the rated capacity. We model refinery utilization at 107%, and expect throughput of 16mmt for FY18/19. We believe that the refinery should be able to report GRM of ~USD6.5/bbl in FY18/19.
- Key risks are (a) lower GRM and (b) lower throughput.
- The stock trades at 10.8x FY19E EPS of INR11.7 and EV of 5.8x FY19E EBITDA. We value the stock at EV of 5.5x FY19E EBITDA to arrive at a fair value of INR97/share for the standalone refinery and add INR16 for OMPL. Our fair value stands at INR113. Peak valuations leave no room for upside, in our view.

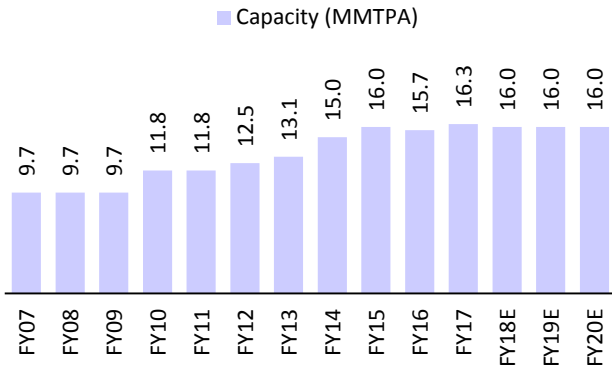
Downgrade to Sell.**Exhibit 4: SOTP valuation**

Valuation	
EBITDA @ FY19 (INRm)	40,346
Target EV/EBITDA (x)	5.0
EV (INRm)	201,732
Net Debt @ FY18 (INRm)	15,687
Equity Value FY18 (INRm)	186,045
# of shares (m)	1,928
12m target price (INR/share)	96.5
Add valuation of OMPL stake	16.3
Total target price (INR)	113

Source: Company, MOSL

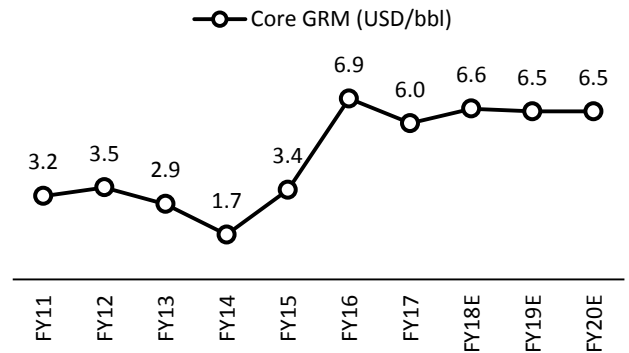
Story in charts

Exhibit 5: MRPL has recently completed its nameplate capacity expansion from 9.5mmt to 15.5mmt along with complexity increase



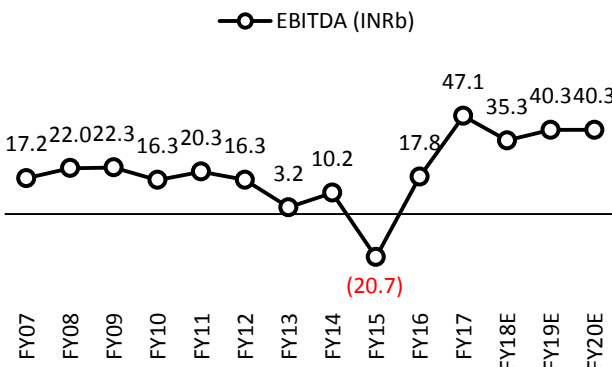
Source: Company, MOSL

Exhibit 6: Higher complexity has started contributing to higher GRMs and is likely to continue



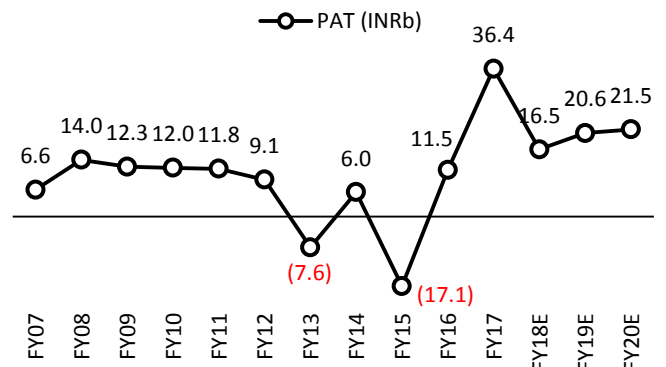
Source: Company, MOSL

Exhibit 7: EBITDA to increase led by improving GRMs...



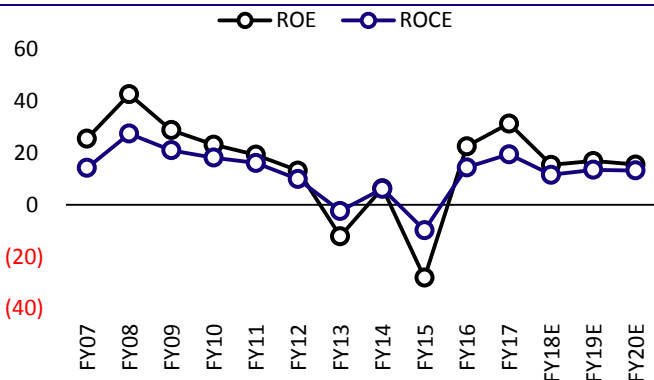
Source: Company, MOSL

Exhibit 8: PAT shall be realized as the margins improve



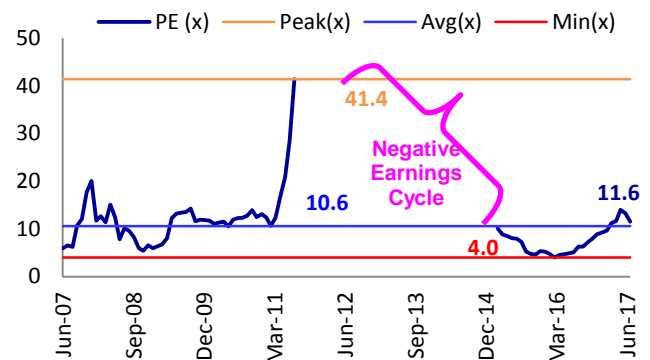
Source: Company, MOSL

Exhibit 9: RoE and RoCE are expected to recover from the decade lows... (%)



Source: Company, MOSL

Exhibit 10: 1-Year forward P/E chart



Source: Company, MOSL

Financials and Valuations

Standalone - Income Statement

(INR Million)

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
Total Income from Operations	657,170	718,264	574,771	396,474	432,079	433,349	488,239	488,239
Change (%)	22.2	9.3	-20.0	-31.0	9.0	0.3	12.7	0.0
Raw Materials	642,840	701,784	578,476	352,348	372,005	380,676	432,177	432,177
Other Expenses	11,119	6,309	17,035	26,277	13,014	17,419	15,716	15,716
Total Expenditure	653,959	708,093	595,512	378,625	385,019	398,095	447,892	447,892
% of Sales	99.5	98.6	103.6	95.5	89.1	91.9	91.7	91.7
EBITDA	3,211	10,171	-20,741	17,850	47,060	35,253	40,346	40,346
Margin (%)	0.5	1.4	-3.6	4.5	10.9	8.1	8.3	8.3
Depreciation	6,044	7,064	4,986	7,105	6,779	7,583	7,917	8,250
EBIT	-2,833	3,107	-25,727	10,745	40,281	27,670	32,430	32,097
Int. and Finance Charges	3,286	3,214	4,071	5,905	5,172	4,864	4,000	3,200
Other Income	906	3,086	7,905	8,573	4,232	1,941	2,437	2,947
PBT bef. EO Exp.	-5,213	2,978	-21,893	13,413	39,341	24,747	30,867	31,844
EO Items	445	1,119	334	-1,830	15,973	0	0	0
PBT after EO Exp.	-4,769	4,097	-21,559	11,583	55,314	24,747	30,867	31,844
Total Tax	2,801	-1,915	-4,437	114	18,877	8,207	10,288	10,369
Tax Rate (%)	-58.7	-46.7	20.6	1.0	34.1	33.2	33.3	32.6
Reported PAT	-7,569	6,012	-17,122	11,469	36,437	16,539	20,579	21,474
Adjusted PAT	-8,275	4,370	-17,388	13,281	25,915	16,539	20,579	21,474
Change (%)	-190.8	-152.8	-497.9	-176.4	95.1	-36.2	24.4	4.3
Margin (%)	-1.3	0.6	-3.0	3.3	6.0	3.8	4.2	4.4

Standalone - Balance Sheet

(INR Million)

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
Equity Share Capital	17,527	17,527	17,527	17,527	17,527	17,527	17,527	17,527
Total Reserves	47,150	53,162	35,523	46,787	83,178	95,847	111,611	128,061
Net Worth	64,677	70,689	53,050	64,314	100,705	113,374	129,138	145,587
Total Loans	69,798	88,536	78,755	68,086	66,331	60,000	40,000	40,000
Deferred Tax Liabilities	7,343	4,703	0	0	0	0	0	0
Capital Employed	141,818	163,927	131,805	132,400	167,035	173,374	169,138	185,587
Gross Block	113,385	122,510	209,416	224,854	217,496	227,496	237,496	247,496
Less: Accum. Deprn.	55,578	62,596	68,323	76,043	75,890	83,473	91,390	99,640
Net Fixed Assets	57,806	59,914	141,092	148,811	141,606	144,023	146,106	147,856
Capital WIP	75,545	85,515	13,775	1,882	2,199	2,199	2,199	2,199
Total Investments	150	150	13,497	13,497	13,496	13,496	13,496	13,496
Curr. Assets, Loans&Adv.	133,511	249,597	174,993	208,651	106,745	114,035	120,024	134,836
Inventory	67,153	84,490	33,996	31,967	40,390	34,484	49,689	34,484
Account Receivables	39,727	44,811	23,588	23,952	26,212	24,100	32,584	24,100
Cash and Bank Balance	16,059	106,723	102,687	137,126	21,309	44,313	26,192	64,694
Loans and Advances	10,573	13,573	14,722	15,605	18,835	11,139	11,558	11,558
Curr. Liability & Prov.	125,194	231,249	211,553	240,441	97,011	100,379	112,687	112,800
Account Payables	123,739	229,568	209,109	236,493	93,563	98,238	110,439	110,439
Provisions	1,455	1,681	2,444	3,948	3,448	2,141	2,248	2,360
Net Current Assets	8,317	18,347	-36,559	-31,790	9,735	13,656	7,337	22,036
Misc Expenditure	0	0	0	0	0	0	0	0
Appl. of Funds	141,818	163,927	131,805	132,400	167,035	173,374	169,138	185,587

E: MOSL Estimates

Financials and Valuations

Ratios								
Y/E March	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
Basic (INR)								
EPS	-4.7	2.5	-9.9	7.6	14.8	9.4	11.7	12.3
Cash EPS	-1.3	6.5	-7.1	11.6	18.7	13.8	16.3	17.0
BV/Share	36.9	40.3	30.3	36.7	57.5	64.7	73.7	83.1
DPS	0.0	0.0	0.0	0.0	4.2	1.9	2.3	2.5
Payout (%)	0.0	0.0	0.0	0.0	23.4	23.4	23.4	23.4
Valuation (x)								
P/E			-12.8	16.7	8.6	13.4	10.8	10.3
Cash P/E			-17.9	10.9	6.8	9.2	7.8	7.5
P/BV			4.2	3.4	2.2	2.0	1.7	1.5
EV/Sales			0.3	0.4	0.6	0.5	0.5	0.4
EV/EBITDA			-9.5	8.6	5.7	6.7	5.8	4.9
Dividend Yield (%)	0.0	0.0	0.0	0.0	3.3	1.5	1.9	1.9
FCF per share	-10.7	41.0	11.2	25.9	-65.1	18.9	3.8	24.8
Return Ratios (%)								
RoE	-12.1	6.5	-28.1	22.6	31.4	15.5	17.0	15.6
RoCE	-2.3	6.2	-9.7	14.5	19.6	11.6	13.6	13.3
RoIC	-9.9	42.2	153.5	-116.5	48.3	15.2	18.0	18.6
Working Capital Ratios								
Fixed Asset Turnover (x)	5.8	5.9	2.7	1.8	2.0	1.9	2.1	2.0
Asset Turnover (x)	4.6	4.4	4.4	3.0	2.6	2.5	2.9	2.6
Inventory (Days)	37	43	22	29	34	29	37	26
Debtor (Days)	22	23	15	22	22	20	24	18
Creditor (Days)	69	117	133	218	79	83	83	83
Leverage Ratio (x)								
Current Ratio	1.1	1.1	0.8	0.9	1.1	1.1	1.1	1.2
Interest Cover Ratio	-0.9	1.0	-6.3	1.8	7.8	5.7	8.1	10.0
Net Debt/Equity	0.8	-0.3	-0.7	-1.3	0.3	0.0	0.0	-0.3

Standalone - Cash Flow Statement

(INR Million)

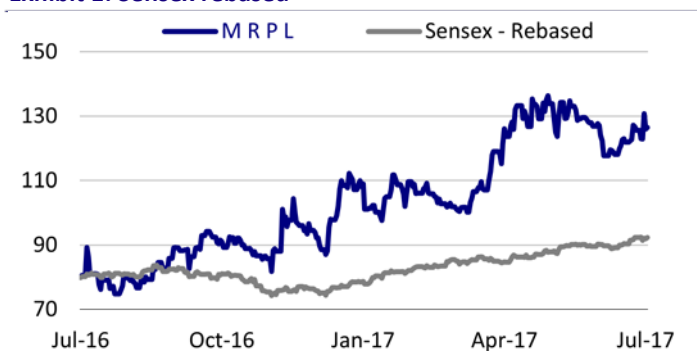
Y/E March	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
OP/(Loss) before Tax	-4,769	4,097	-21,559	11,583	55,314	24,747	30,867	31,844
Depreciation	6,044	7,064	4,986	7,105	6,779	7,583	7,917	8,250
Direct Taxes Paid	-2,801	1,915	4,437	-114	-18,877	-8,207	-10,288	-10,369
(Inc)/Dec in WC	7,822	80,634	50,871	29,670	-157,343	19,082	-11,801	23,802
CF from Operations	6,297	93,710	38,734	48,244	-114,127	43,205	16,695	53,526
Others	2,812	-2,641	-4,703	0	0	0	0	0
CF from Operating incl EO	9,109	91,070	34,032	48,244	-114,127	43,205	16,695	53,526
(Inc)/Dec in FA	-27,905	-19,143	-14,424	-2,931	110	-10,000	-10,000	-10,000
Free Cash Flow	-18,797	71,927	19,608	45,314	-114,017	33,205	6,695	43,526
(Pur)/Sale of Investments	273	0	-13,347	0	0	0	0	0
CF from Investments	-27,632	-19,143	-27,771	-2,931	110	-10,000	-10,000	-10,000
Inc/(Dec) in Debt	12,281	18,738	-9,780	-10,669	-1,755	-6,331	-20,000	0
Dividend Paid	0	0	0	0	-8,526	-3,870	-4,815	-5,025
Others	-46	0	-517	-205	8,480	0	0	0
CF from Fin. Activity	12,235	18,738	-10,297	-10,875	-1,801	-10,201	-24,815	-5,025
Inc/Dec of Cash	-6,289	90,665	-4,036	34,439	-115,818	23,004	-18,120	38,502
Opening Balance	22,347	16,059	106,723	102,687	137,126	21,309	44,313	26,192
Closing Balance	16,059	106,723	102,687	137,126	21,309	44,313	26,192	64,694

Corporate profile

Company description

MRPL (Bloomberg: MRPL) is an ONGC Group company, with ONGC's stake at 71.6%. It was set up in 1988 with the initial crude processing capacity of 3.0MMTPA that was later expanded to 9.7MMTPA and is now expanded to 15mmtpa.

Exhibit 1: Sensex rebased



Source: MOSL/Bloomberg

Exhibit 2: Shareholding pattern (%)

	Jun-17	Mar-17	Jun-16
Promoter	88.6	88.6	88.6
DII	2.9	3.1	3.4
FII	1.9	1.8	0.8
Others	6.6	6.5	7.3

Note: FII Includes depository receipts

Source: Capitaline

Exhibit 3: Top holders

Holder Name	% Holding
LIFE INSURANCE CORPORAION OF INDIA	1.7
NA	0.0
NA	0.0
NA	0.0
NA	0.0

Source: Capitaline

Exhibit 4: Top management

Name	Designation
D K Sarraf	Chairman
H Kumar	Managing Director
A K Sahoo	Director (Finance)
Dinesh Mishra	Company Secretary

Source: Capitaline

Exhibit 5: Directors

Name	Name
Vinod S Shenoy	Diwakar Nath Misra
Perin Devi	M Venkatesh

*Independent

Exhibit 6: Auditors

Name	Type
A Raghavendra Rao & Associates	Statutory
Bandyopadhyaya Bhaumik & Co	Cost Auditor
K Varghese & Co	Internal
Sreedhar, Suresh & Rajagopalan	Statutory
Ullas Kumar Melinamogaru & Associates	Secretarial Audit

Source: Capitaline

Exhibit 7: MOSL forecast v/s consensus

EPS (INR)	MOSL forecast	Consensus forecast	Variation (%)
FY18	9.4	14.7	-36.0
FY19	11.7	16.1	-27.5
FY20	12.3	12.8	-3.5

Source: Bloomberg

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