

Mangalore Refinery (MRPL)

Recovery in GRMs to remain key...

- MRPL reported its Q4FY18 numbers, which were above our estimates on the revenue front with higher-than-expected crude throughput. Revenues increased 7.7% QoQ to ₹ 18753.1 crore and came in largely above our estimate of ₹ 17186.9 crore. Crude throughput was at 4.3 MMT in Q4FY18 vs. 4.5 MMT in Q3FY18 and came in above our estimate of 4 MMT
- Reported GRMs during the quarter came in at US\$7.9/bbl, below our estimate of US\$8.5/bbl. Reported GRMs include inventory gains, which was at US\$1.4/bbl, above our estimate of US\$1/bbl
- PAT during the quarter declined 44.1% QoQ and was at ₹ 542.1 crore. It was below our estimate of ₹ 577.4 crore mainly on account of lower reported GRMs and higher tax expenses. Higher-than-expected other income of ₹ 77.1 crore (our estimate: ₹ 37 crore) provided a cushion to profitability

GRMs below estimates during the quarter

MRPL's reported GRMs were at US\$7.9/bbl below our estimate of US\$8.5/bbl. The company's inventory gains during the quarter came in at US\$1.4/bbl. Due to relatively lower capacity utilisation at poly-propylene plant, operational GRMs were below our estimates at US\$6.5/bbl (our estimates: US\$7.5/bbl). Benchmark Singapore GRMs in the ongoing quarter (Q1FY19 till date) are at US\$6.5/bbl with relatively weak product spreads. Hence, we believe a better operational performance will remain key in deciding MRPL's financials in coming quarters. With better crude sourcing arrangements, we expect GRMs for MRPL at US\$6.8/bbl and US\$7.1/bbl for FY19E and FY20E, respectively.

Throughput parameters remain on track

During the quarter, crude throughput witnessed a 4% QoQ decline at 4.3 MMT vs 4.5 MMT in the previous quarter but came in above our estimate of 4 MMT. Throughput for FY18 was on track YoY and came in at 16.3 MMT. MRPL has an edge over other refineries on an operational basis, with its refining complexity number at 10, which is higher than most PSU refineries. It is expected to benefit from the same with increased distillate yield, better capability to handle heavier & sourer crude and production of higher margin value-added products. We believe MRPL will report better operational performance with crude throughput of 16 MMT and 16.1 MMT in FY19E and FY20E, respectively.

MRPL-OMPL & potential HPCL-MRPL merger to be watched

The merger between MRPL and OMPL is at an ongoing stage. MRPL plans to develop its petrochemicals slate through the merged entity. Also, reports suggest the possibility of ONGC merging its subsidiaries MRPL and HPCL. However, clarity on the same from the government is awaited. The merger plan of HPCL and MRPL, if implemented, can benefit shareholders given the synergies of the same business. MRPL has capex plans for two major projects for further expansion of its capacity from 15 MMTPA to 18 MMTPA and upgradation of refinery to meet BS-VI norms by 2020, which is expected to improve profits on a standalone basis. We have a **BUY** recommendation on the stock at current levels. We value the stock at 6x FY20E EV/EBITDA multiple and OMPL at ₹ 7.6/share to arrive at a target price of ₹ 130.

Rating matrix	
Rating	Buy
Target	₹ 130
Target Period	12 months
Potential Upside	24%

What's changed?	
Target	Changed from ₹ 140 to ₹ 130
EPS FY19E	Changed from ₹ 12.1 to ₹ 10.8
EPS FY20E	Changed from ₹ 13.1 to ₹ 11.7
Rating	Unchanged

Quarterly performance					
	Q4FY18	Q4FY17	YoY (%)	Q3FY18	QoQ (%)
Revenue	18,753.1	18,108.6	3.6	17,419.8	7.7
EBITDA	1,044.4	1,554.0	-32.8	1,748.5	-40.3
EBITDA (%)	5.6	8.6	-301 bps	10.0	-447 bps
PAT	542.1	1,942.6	-72.1	969.9	-44.1

Key financials				
₹ Crore	FY17	FY18	FY19E	FY20E
Revenues	59,430.5	63,083.6	72,307.7	71,043.5
EBITDA	4,708.3	4,283.8	3,853.3	4,083.9
Net Profit	3,644.8	2,249.8	1,900.7	2,057.6
EPS (₹)	20.8	12.8	10.8	11.7

Valuation summary				
	FY17	FY18	FY19E	FY20E
P/E	5.0	8.2	9.7	8.9
Target P/E	6.3	10.1	12.0	11.1
EV / EBITDA	5.3	5.2	5.6	5.3
P/BV	1.8	1.6	1.5	1.4
RoNW (%)	36.2	19.6	15.2	15.1
RoCE (%)	21.6	22.5	18.4	18.5

Stock data	
Particular	Amount
Market Capitalization (₹ Crore)	18,402.9
Total Debt (FY18) (₹ Crore)	4,576.3
Cash and Investments (FY18) (₹ Crore)	889.5
EV (₹ Crore)	22,089.7
52 week H/L	146/102
Equity capital (₹ Crore)	1,752.7
Face value (₹)	10.0

Price performance				
Return %	1M	3M	6M	12M
MRPL	(3.7)	(10.7)	(16.0)	(20.1)
Reliance Ind	6.3	10.2	11.9	45.5
Oil India	7.0	(0.6)	(2.5)	11.3

Research Analyst	
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Variance analysis

	Q4FY18	Q4FY18E	Q4FY17	YoY (%)	Q3FY18	QoQ (%)	Comments
Total Revenues	18,753.1	17,186.9	18,108.6	3.6	17,419.8	7.7	Higher-than-estimates on account of higher throughput
Raw materials costs	17,315.0	15,593.2	11,836.7	46.3	15,990.6	8.3	
Employees Cost	128.5	110.0	141.8	-9.4	95.1	35.0	
Other Expenses	265.3	376.0	4,576.1	-94.2	-414.5	-164.0	
Total Expenditure	17,708.7	16,079.2	16,554.6	7.0	15,671.2	13.0	
EBITDA	1,044.4	1,107.7	1,554.0	-32.8	1,748.5	-40.3	Lower-than-estimates on account of lower operational GRMs of US\$ 6.5/bbl
EBITDA margins (%)	5.6	6.4	8.6	-301 bps	10.0	-447 bps	
Depreciation	161.7	172.7	170.3	-5.1	172.0	-6.0	
EBIT	882.7	935.0	1,383.7	-36.2	1,576.6	-44.0	
Interest	111.8	122.8	121.7	-8.1	115.9	-3.5	
Other Income	77.1	37.0	37.5	105.6	20.2	281.6	
Extra Ordinary Item	0.0	0.0	1,597.3	NA	0.0	NA	
PBT	847.9	849.2	2,896.8	-70.7	1,480.9	-42.7	
Total Tax	305.8	271.7	954.2	-68.0	511.0	-40.2	
PAT	542.1	577.4	1,942.6	-72.1	969.9	-44.1	Profitability was also impacted by higher tax expenses

Key Metrics

Exchange Rate (US\$/₹)	64.5	64.5	67.0	-3.7	64.7	-0.3	
Oil Throughput (mmt)	4.3	4.0	4.2	1.9	4.5	-4.0	
GRM (US\$/barrel)	7.9	8.5	8.3	-4.6	9.3	-15.1	The reported GRMs include inventory gains of US\$ 1.4/bbl

Source: Company, ICICI Direct Research

Change in estimates

(₹ Crore)	FY19E			FY20E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	68,371.4	72,307.7	5.8	69,370.8	71,043.5	2.4	Higher crude oil prices led to higher revenue estimates in FY19E and FY20E
EBITDA	4,047.1	3,853.3	-4.8	4,236.8	4,083.9	-3.6	Change in GRM estimates led the decline in EBITDA estimates
EBITDA Margin (%)	5.9	5.3	-59 bps	6.1	5.7	-36 bps	
PAT	2,113.8	1,900.7	-10.1	2,292.7	2,057.6	-10.3	Higher tax rates and interest costs led to lower PAT estimates
EPS (₹)	12.1	10.8	-10.1	13.1	11.7	-10.3	

Source: Company, ICICI Direct Research

Assumptions

	Current				Earlier		Comments
	FY17	FY18E	FY19E	FY20E	FY19E	FY20E	
Exchange Rate (US\$/₹)	67.1	64.5	66.0	66.0	64.5	64.5	
Oil Throughput (mmt)	16.3	16.3	16.0	16.1	15.7	15.9	We have assumed the current run rate for crude oil throughput
GRM (US\$/barrel)	7.5	7.5	6.8	7.1	7.3	7.5	

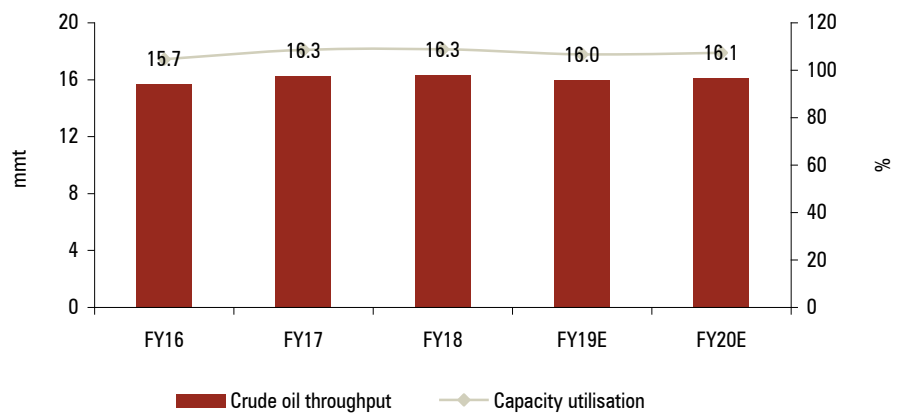
Source: Company, ICICI Direct Research

Company Analysis

Throughput parameters remain on track

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Exhibit 1: MRPL's throughput trend to remain stable, going forward

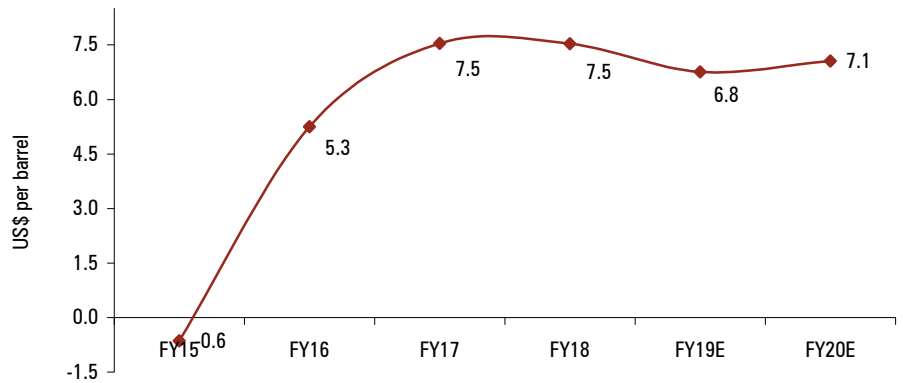


Source: Company, ICICI Direct Research

Throughput parameters remain on track

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Exhibit 2: MRPL's refining margins to remain stable

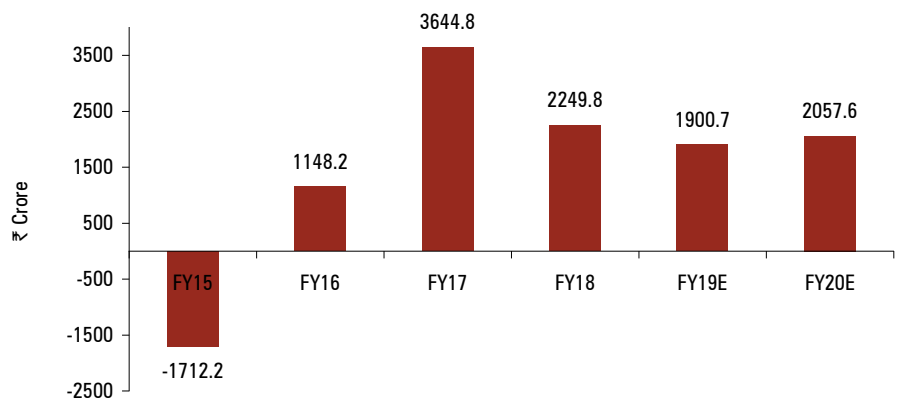


Source: Company, ICICI Direct Research

Profitability sensitive to refining margins

MRPL's earnings have a high correlation with refining margins. PAT for the current quarter was lower than estimates due to below expected operational performance, in our opinion. Going forward, we believe GRMs of MRPL will remain stable with PAT expectations at ₹ 2057.6 crore in FY20E.

Exhibit 3: Net profit trend to report stable growth



Source: Company, ICICI Direct Research

Outlook & valuation

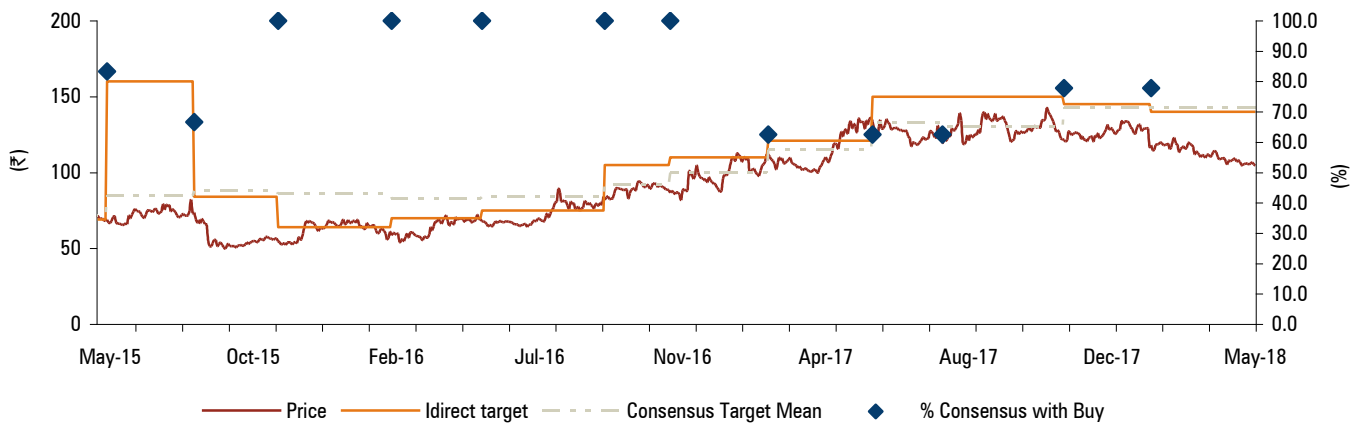
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Exhibit 4: Valuation

Particulars	
EBITDA (₹ crore)	4083.9
EV/EBITDA multiple (X)	6.0
EV (₹ crore)	24503.5
Net Debt (₹ crore)	3293.2
Investment in OMPL (₹ crore)	1334.6
Target Mcap (₹ crore)	21210.3
No. of shares (crore)	175.3
Target Price (₹ per share)	130

Source: ICICI Direct Research

Recommendation history vs. consensus estimate



Source: Reuters, Company, ICICI Direct Research

Key events

Date	Event
Dec-09	Plans to raise ₹ 4000 crore forex loan
Dec-09	Borrows ₹ 10000 crore from parent company to boost capacity by 51% and build a petrochemical plant
Jan-11	Iran supply concerns lead to uncertainty as MRPL gets majority of its supply from Iran
Dec-11	Plans to raise US\$500 million loan for expansion of Phase 3 refinery
Mar-12	Closes US\$250 million expansion loan to expand its capacity at its Mangalore refinery
Apr-12	Shuts its 300,000 barrels per day plant due to water shortage and defers its shipments
May-13	Posts loss of ₹ 757 crore in FY13 mainly on account of high interest payments and exchange losses
Dec-13	Halts fuel export after March as insurance companies say refineries processing oil will no longer be covered due to sanctions from Western nations
Apr-14	Plans US\$1.4 billion expansion at its facility in western India as its margins rise to meet growing fuel demand
Feb-15	MRPL reports strong operational performance on account of stabilisation of new refinery units
Jul-15	MRPL approves the scheme of amalgamation of OMPL with the company, which will give higher flexibility and value to optimize MRPL's gross refining margin (GRM)
Oct-16	MRPL completes and commissions its Phase III expansion project

Source: Company, ICICI Direct Research

Top 10 Shareholders

Rank	Investor Name	Latest Filing Date	% O/S	Position	Change (m)
1	Oil and Natural Gas Corporation Ltd	31-Mar-18	71.6	1255.4	0.0
2	Hindustan Petroleum Corp Ltd	31/Mar/18	17.0	297.2	0.0
3	Life Insurance Corporation of India	31-Mar-18	1.4	24.1	-1.5
4	Aditya Birla Sun Life AMC Limited	31/Mar/18	1.1	18.9	0.9
5	The Vanguard Group, Inc.	31-Mar-18	0.4	7.4	0.0
6	FIL Investment Management (Singapore) Ltd.	31/Mar/18	0.3	5.8	2.6
7	L&T Investment Management Limited	31-Mar-18	0.3	5.0	0.0
8	Goldman Sachs Asset Management International	31/Mar/18	0.2	3.6	3.6
9	Dimensional Fund Advisors, L.P.	31-Mar-18	0.1	2.2	0.0
10	BNY Mellon Asset Management North America Corporatio	31/Mar/18	0.1	1.4	0.0

Source: Reuters, ICICI Direct Research

Shareholding Pattern

(in %)	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18
Promoter	88.6	88.6	88.6	88.4	88.6
FII	1.8	1.9	1.4	1.3	1.5
DII	3.1	2.9	3.5	3.4	3.0
Others	6.5	6.6	6.6	6.9	6.8

Recent Activity

Investor name	Value (m)	Shares(m)	Investor name	Value (m)	Shares(m)
Goldman Sachs Asset Management International	6.11	3.62	Life Insurance Corporation of India	-2.57	-1.53
FIL Investment Management (Singapore) Ltd.	4.33	2.57	Wellington Management Company, LLP	-2.05	-1.05
Aditya Birla Sun Life AMC Limited	1.50	0.89	Reliance Nippon Life Asset Management Limited	-1.10	-0.66
Norges Bank Investment Management (NBIM)	1.26	0.62	Old Mutual Global Investors (UK) Limited	-1.38	-0.63
Goldman Sachs Asset Management (India) Private Ltd.	0.33	0.18	ICICI Prudential Asset Management Co. Ltd.	-1.03	-0.61

Source: Reuters, ICICI Direct Research

Financial summary

Profit and loss statement		₹ Crore			
(Year-end March)	FY17	FY18	FY19E	FY20E	
Revenue	59,430.5	63,083.6	72,307.7	71,043.5	
Growth (%)	49.9	6.1	14.6	-1.7	
(Inc)/(Dec) in stock in trade	-288.3	-766.7	0.0	0.0	
Raw material Costs	37488.8	43248.2	52603.3	51428.8	
Employee Costs	352.0	417.4	426.0	460.0	
Ex. Duty & Sales Tax	16222.6	14633.1	14500.0	14140.0	
Other Expenditure	947.1	1268.0	925.1	930.8	
Op. Expenditure	54722.3	58799.8	68454.4	66959.6	
EBITDA	4,708.3	4,283.8	3,853.3	4,083.9	
Growth (%)	162.8	-9.0	-10.0	6.0	
Depreciation	679.3	667.5	707.6	729.8	
EBIT	4029.0	3616.3	3145.7	3354.1	
Interest	515.8	440.5	421.9	408.5	
Other Income	2020.5	200.5	156.0	172.0	
PBT	5533.7	3376.4	2879.9	3117.6	
Growth (%)	371.5	-39.0	-14.7	8.3	
Tax	1888.9	1126.6	979.2	1060.0	
Reported PAT	3,644.8	2,249.8	1,900.7	2,057.6	
Growth (%)	217.4	-38.3	-15.5	8.3	
EPS	20.8	12.8	10.8	11.7	

Source: Company, ICICI Direct Research

Balance sheet		₹ Crore			
(Year-end March)	FY17	FY18	FY19E	FY20E	
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	8,317.8	9,753.0	10,737.2	11,878.4	
Shareholder's Fund	10,070.5	11,505.6	12,489.9	13,631.0	
Loan Funds	8,541.0	4,576.3	4,576.3	4,501.3	
Deferred Tax Liability	476.7	906.2	1,056.2	1,206.2	
Minority Interest	0.0	0.0	0.0	0.0	
Source of Funds	19,088.1	16,988.1	18,122.4	19,338.5	
Application of Funds					
Gross Block	15,549.0	15,799.0	16,299.0	16,799.0	
Less: Acc. Depreciation	1,388.4	2,079.3	2,786.9	3,516.8	
Net Block	14,160.6	13,719.7	13,512.1	13,282.2	
Capital WIP	219.9	669.9	1,669.9	2,669.9	
Total Fixed Assets	14,380.5	14,389.6	15,181.9	15,952.1	
Investments	1,349.7	1,349.7	1,349.7	1,349.7	
Inventories	4,039.0	4,752.9	5,447.8	5,352.6	
Debtor	2,621.2	2,678.9	3,268.7	3,211.6	
Cash	2,130.8	889.5	1,355.1	1,208.1	
Loan & Advance, Other CA	1,838.7	2,313.7	2,888.7	3,463.7	
Total Current assets	10,629.7	10,635.0	12,960.3	13,236.0	
Current Liabilities	6,926.9	8,900.8	10,895.7	10,705.2	
Provisions	344.8	485.3	473.9	494.1	
Total CL and Provisions	7,271.7	9,386.1	11,369.6	11,199.3	
Net Working Capital	3,358.0	1,248.9	1,590.8	2,036.7	
Miscellaneous expense	0.0	0.0	0.0	0.0	
Application of Funds	19,088.1	16,988.1	18,122.4	19,338.5	

Source: Company, ICICI Direct Research

Cash flow statement		₹ Crore			
(Year-end March)	FY17	FY18	FY19E	FY20E	
Profit after Tax	3,644.8	2,249.8	1,900.7	2,057.6	
Less: Dividend Paid	1,222.0	814.6	916.5	916.5	
Add: Depreciation	679.3	667.5	707.6	729.8	
Add: Others	699.7	429.5	150.0	150.0	
Cash Profit	3,801.7	2,532.1	1,841.9	2,021.0	
Increase/(Decrease) in CL	-15,505.8	2,114.4	1,983.4	-170.3	
(Increase)/Decrease in CA	-1,569.6	-1,246.6	-1,859.8	-422.6	
CF from Operating Activities	-13273.7	3399.9	1965.5	1428.1	
Purchase of Fixed Assets	-9.6	676.6	1,500.0	1,500.0	
(Inc)/Dec in Investments	0.0	0.0	0.0	0.0	
Others	0.0	0.0	0.0	1.0	
CF from Investing Activities	9.6	-676.6	-1,500.0	-1,500.0	
Inc/(Dec) in Loan Funds	465.8	-3,964.7	0.0	-75.0	
Inc/(Dec) in Sh. Cap. & Res.	1,216.3	0.0	0.0	0.0	
Others	0.0	0.0	0.0	0.0	
CF from financing activities	1,682.1	-3,964.7	0.0	-75.0	
Change in cash Eq.	-11,582.0	-1,241.3	465.5	-146.9	
Op. Cash and cash Eq.	13,712.8	2,130.8	889.5	1,355.1	
Cl. Cash and cash Eq.	2,130.8	889.5	1,355.1	1,208.1	

Source: Company, ICICI Direct Research

Key ratios					
(Year-end March)	FY17	FY18	FY19E	FY20E	
Per share data (₹)					
Book Value	57.5	65.6	71.3	77.8	
Cash per share	12.2	5.1	7.7	6.9	
EPS	20.8	12.8	10.8	11.7	
Cash EPS	24.7	16.6	14.9	15.9	
DPS	6.0	4.0	4.5	4.5	
Profitability & Operating Ratios					
EBITDA Margin (%)	7.9	6.8	5.3	5.7	
PAT Margin (%)	6.1	3.6	2.6	2.9	
Fixed Asset Turnover (x)	4.1	4.4	4.8	4.5	
Inventory Turnover (Days)	27.6	27.5	27.5	27.5	
Debtor (Days)	16.1	15.5	16.5	16.5	
Current Liabilities (Days)	67.4	51.5	55.0	55.0	
Return Ratios (%)					
RoE	36.2	19.6	15.2	15.1	
RoCE	21.6	22.5	18.4	18.5	
RoIC	24.4	23.8	20.0	19.8	
Valuation Ratios (x)					
PE	5.0	8.2	9.7	8.9	
Price to Book Value	1.8	1.6	1.5	1.4	
EV/EBITDA	5.3	5.2	5.6	5.3	
EV/Sales	0.4	0.4	0.3	0.3	
Leverage & Solvency Ratios					
Debt to equity (x)	0.8	0.4	0.4	0.3	
Interest Coverage (x)	7.8	8.2	7.5	8.2	
Debt to EBITDA (x)	1.8	1.1	1.2	1.1	
Current Ratio	1.5	1.1	1.1	1.2	
Quick ratio	0.9	0.6	0.7	0.7	

Source: Company, ICICI Direct Research

ICICI Direct coverage universe (Oil & Gas)

Sector / Company	CMP		Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)			FY18E	FY19E	FY20E	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E
Bharat Petroleum (BHAPET)	380	450	Hold	41,216	40.9	38.5	44.5	9.3	9.9	8.5	9.0	8.2	7.0	16.9	16.9	19.2	27.1	25.2	28.9
Castrol India (CASIND)	184	165	Hold	18,200	6.8	7.0	7.4	27.0	26.3	25.0	17.3	17.0	16.0	161.1	199.3	267.0	113.3	139.6	186.6
GAIL (India) (GAIL)	329	383	Buy	74,190	15.5	22.3	22.8	21.2	14.8	14.4	12.1	9.3	9.4	11.7	14.9	14.0	9.2	12.3	11.8
Gujarat Gas (GUJGA)	883	1,000	Buy	2,201	16.2	21.2	31.5	54.5	41.7	28.0	19.3	15.9	13.0	12.3	15.5	19.5	13.6	20.5	22.1
Gujarat State Petronet (GSPL)	180	200	Buy	10,140	8.8	12.2	11.7	20.4	14.8	15.4	12.1	11.9	10.3	13.8	11.3	12.5	11.0	13.6	11.9
Gulf Oil Lubricants (GULO)	894	1,000	Hold	4,432	24.4	31.4	34.4	36.7	28.4	28.4	24.0	18.8	16.2	32.5	42.1	46.3	34.2	36.3	32.2
Hindustan Petroleum (HINPET)	294	365	Hold	44,851	13.6	13.2	12.5	7.2	7.4	7.8	6.2	6.8	6.7	19.3	16.1	15.4	30.5	27.8	24.9
Indraprastha Gas (INDGAS)	272	315	Hold	19,040	8.2	9.2	9.9	33.3	29.5	27.5	20.8	18.4	16.4	27.2	26.2	24.9	19.5	18.9	17.8
Mahanagar Gas Ltd (MAHGAS)	871	1,200	Buy	8,604	39.8	50.0	51.7	21.9	17.4	16.8	13.1	10.2	9.7	29.8	33.5	30.7	21.4	23.7	22.0
Mangalore Refinery (MRPL)	105	130	Buy	18,403	20.8	12.8	10.8	5.0	8.2	9.7	5.3	4.3	3.7	21.6	22.5	18.4	36.2	15.2	15.1
Petronet LNG (PETLNG)	206	310	Buy	32,850	6.1	13.8	15.5	19.3	15.9	14.1	NA	NA	NA	21.4	28.5	33.8	21.1	23.3	24.0

Source: Company, ICICI Direct Research

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