

Rating matrix	
Rating	: Buy
Target	: ₹ 75
Target Period	: 12 months
Potential Upside	: 15%

What's changed?	
Target	Changed from ₹ 90 to ₹ 75
EPS FY19E	Changed from ₹ 5.5 to ₹ 0.8
EPS FY20E	Changed from ₹ 10.6 to ₹ 7.5
Rating	Unchanged

Quarterly performance					
	Q3FY19	Q3FY18	YoY (%)	Q2FY19	QoQ (%)
Revenue	20,249.6	17,419.8	16.2	17,732.9	14.2
EBITDA	-104.7	1,748.5	-106.0	144.3	-172.6
EBITDA (%)	-0.5	10.0	-1055 bps	0.8	-133 bps
PAT	-267.7	969.9	-127.6	-81.2	229.9

Key financials				
₹ Crore	FY17	FY18	FY19E	FY20E
Revenues	59,430.5	63,083.6	71,774.8	69,059.1
EBITDA	4,708.3	4,283.8	1,306.1	2,985.4
Net Profit	3,644.8	2,249.8	138.5	1,316.4
EPS (₹)	20.8	12.8	0.8	7.5

Valuation summary				
	FY17	FY18	FY19E	FY20E
P/E	3.1	5.1	82.2	8.7
Target P/E	3.6	5.8	94.9	10.0
EV / EBITDA	3.8	3.5	10.5	4.9
P/BV	1.1	1.0	1.0	1.0
RoNW (%)	36.2	20.4	1.2	11.4
RoCE (%)	21.6	23.2	3.7	13.5

Stock data	
Particular	Amount
Market Capitalization (₹ Crore)	11,392.3
Total Debt (FY18) (₹ Crore)	4,577.2
Cash and Investments (FY18) (₹ Crore)	833.0
EV (₹ Crore)	15,136.5
52 week H/L	124/61
Equity capital (₹ Crore)	1,752.7
Face value (₹)	10.0

Price performance				
Return %	1M	3M	6M	12M
MRPL	(7.6)	(17.2)	(15.7)	(46.8)
Reliance Ind	12.3	16.2	9.4	27.1
Oil India	(3.7)	(14.3)	(17.7)	(31.2)

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Mangalore Refinery (MRPL)

₹ 65

Inventory losses impact performance...

- MRPL reported its Q3FY19 numbers, which were impacted by high inventory losses. Revenues increased 14.2% QoQ to ₹ 20249.6 crore on higher volumes. Crude throughput was at 4.4 MMT in Q3FY19, up 5% QoQ and came in above our estimate of 4.2 MMT
- Reported GRMs during the quarter came in at US\$ -0.6/bbl above our estimate of -US\$3.1/bbl. Core GRMs were at US\$4/bbl while inventory losses were at -US\$4.6/bbl (our estimate of -US\$7.7/bbl)
- Subsequently, loss during the quarter was at ₹ 267.7 crore against our estimate of loss of ₹ 872.4 crore mainly on account of lower reported GRMs

Core GRMs continue to remain subdued

During the quarter, MRPL's reported GRMs came in at -US\$0.6/bbl above our estimate of -US\$3.1/bbl as inventory losses were at -US\$4.6/bbl (our estimate of -US\$7.7/bbl). MRPL's core operational GRMs remained weak during the quarter at US\$4/bbl (our estimate: US\$4.6/bbl). Weak product spreads in Q3FY19 and weak operational performance pulled down GRMs. Benchmark Singapore GRMs in the ongoing quarter (Q4FY19 till date) are at US\$2.4/bbl with relatively weak product spreads. Hence, we believe an improvement in operational performance will remain a 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\$3.9/bbl and US\$5.5/bbl for FY19E and FY20E, respectively.

Volumes remains intact

Crude throughput was at 4.4 MMT in Q3FY19, up 5% QoQ and came in above our estimate of 4.2 MMT. 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 on an improved performance on a sustainable basis due to some or the other technical glitches in operations. Hence, we reduce its GRMs premium to Singapore refining margins. On the volume front, we believe MRPL will report crude throughput of 16.2 MMT for FY19E and 16.1 MMT for FY20E.

Potential restructuring to be watched

The merger discussion between MRPL and HPCL are at an ongoing stage. However, clarity on valuations and merger ratio is still awaited. The merger plan of HPCL and MRPL, if implemented, can benefit shareholders given 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. However, taking into account the medium term subdued profitability, we value the stock at 5.5x FY20E EV/EBITDA multiple to arrive at a target price of ₹ 75.

Variance analysis

	Q3FY19	Q3FY19	Q3FY18	YoY (%)	Q2FY19	QoQ (%)	Comments
Total Revenues	20,249.6	16,686.0	17,419.8	16.2	17,732.9	14.2	Higher volumes led to increase in revenues
Raw materials costs	20,546.4	17,369.4	15,077.2	36.3	16,723.5	22.9	
Employees Cost	105.3	103.0	95.1	10.7	100.1	5.2	
Other Expenses	-297.3	287.3	498.9	-159.6	765.0	-138.9	Includes forex gain of ~₹ 385 crore
Total Expenditure	20,354.4	17,759.7	15,671.2	29.9	17,588.6	15.7	
EBITDA	-104.7	-1,073.7	1,748.5	-106.0	144.3	-172.6	Better-than-estimates on account of lower than expected inventory loss which stood at US\$4.6/bbl against expected US\$7.7/bbl
EBITDA margins (%)	-0.5	-6.4	10.0	-1055 bps	0.8	-133 bps	
Depreciation	179.1	179.9	172.0	4.1	182.4	-1.8	
EBIT	-283.8	-1,253.7	1,576.6	-118.0	-38.0	645.9	
Interest	99.9	107.2	115.9	-13.8	117.3	-14.8	
Other Income	36.8	39.0	20.2	82.1	38.1	-3.6	
Extra Ordinary Item	-10.3	0.0	0.0	NA	0.0	NA	Includes cost paid for the purchase of renewable energy certificate from Indian Energy Exchange, employee benefit expense and income tax refund
PBT	-357.2	-1,321.9	1,480.9	-124.1	-92.1	287.7	
Total Tax	-89.5	-449.4	511.0	-117.5	-11.0	715.5	
PAT	-267.7	-872.4	969.9	-127.6	-81.2	229.9	

Key Metrics

Exchange Rate (US\$/₹)	72.1	72.1	64.7	11.4	70.1	2.9	
Oil Throughput (mmt)	4.4	4.2	4.5	-2.4	3.9	12.0	Marginally above estimates
GRM (US\$/barrel)	-0.6	-3.1	9.3	-106.8	4.4	-114.3	GRMs include inventory loss of US\$4.6/bbl, core GRMs stood at US\$4/bbl

Source: Company, ICICI Direct Research

Change in estimates

(₹ Crore)	FY19E			FY20E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	71,738.2	71,774.8	0.1	74,281.5	69,059.1	-7.0	
EBITDA	2,547.9	1,306.1	-48.7	3,855.7	2,985.4	-22.6	Change in GRM estimates led to the decline in EBITDA estimates
EBITDA Margin (%)	3.6	1.8	-173 bps	5.2	4.3	-87 bps	
PAT	972.3	138.5	-85.8	1,852.1	1,316.4	-28.9	
EPS (₹)	5.5	0.8	-85.8	10.6	7.5	-28.9	

Source: Company, ICICI Direct Research

Assumptions

	Current				Earlier		Comments
	FY17	FY18E	FY19E	FY20E	FY19E	FY20E	
Exchange Rate (US\$/₹)	67.1	64.5	70.2	71.5	70.5	72.0	
Oil Throughput (mmt)	16.3	16.3	16.2	16.1	16.0	16.1	We assume the current run rate for crude oil throughput
GRM (US\$/barrel)	7.5	7.5	3.9	5.5	5.9	6.4	GRM estimates revised downwards on below than expected operational performance and weak global product spreads

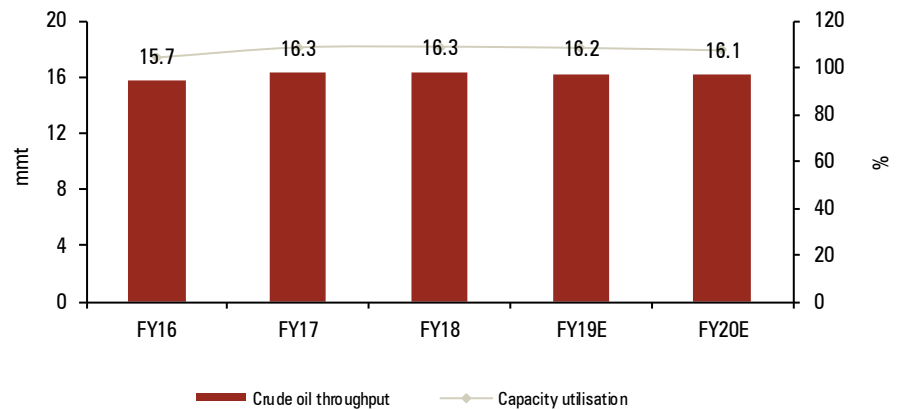
Source: Company, ICICI Direct Research

Company Analysis

Volumes remains intact

The crude throughput was at 4.4 MMT in Q3FY19, up 5% QoQ and came in above our estimate of 4.2 MMT. 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 on improved performance on a sustainable basis due to some or the other technical glitches in operations. Hence, we reduce its GRMs premium to Singapore refining margins. On the volume front, we believe MRPL will report crude throughput of 16.2 MMT for FY19E and 16.1 MMT for FY20E.

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

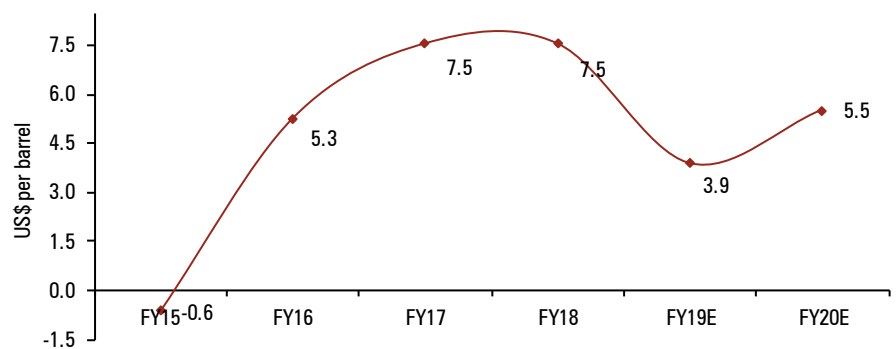


Source: Company, ICICI Direct Research

Core GRMs continues to remain subdued

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Exhibit 2: MRPL's refining margins to remain stable

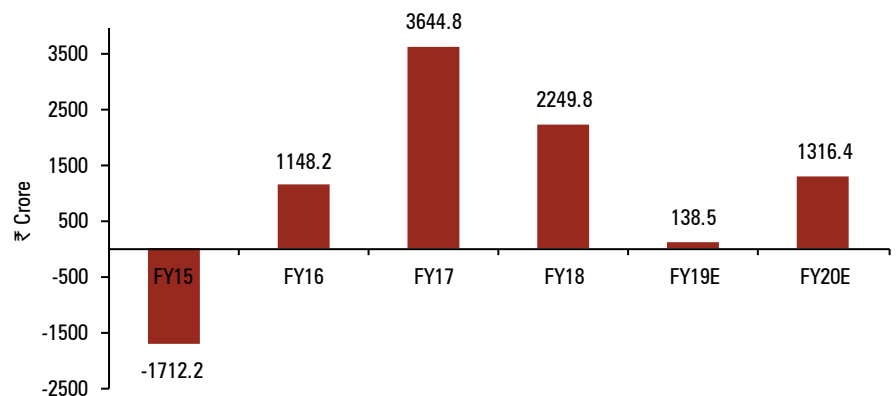


Source: Company, ICICI Direct Research

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 lower operational performance and weak product spreads.

Exhibit 3: Net profit trend to report stable growth



Source: Company, ICICI Direct Research

Outlook & valuation

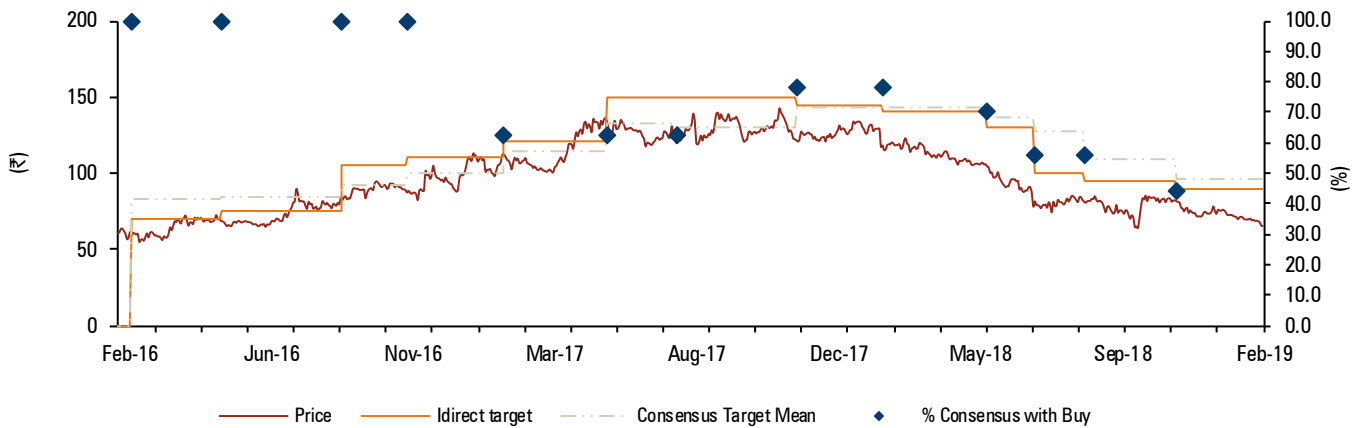
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Exhibit 4: Valuation

Particulars	
EBITDA (₹ crore)	2985.4
EV/EBITDA multiple (X)	5.5
EV (₹ crore)	16419.7
Net Debt (₹ crore)	3201.9
Target Mcap (₹ crore)	13217.8
No. of shares (crore)	175.3
Target Price (₹ per share)	75

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-Dec-18	71.6	1255.4	0.0
2	Hindustan Petroleum Corp Ltd	31/Dec/18	17.0	297.2	0.0
3	Life Insurance Corporation of India	31-Dec-18	1.3	23.5	-0.6
4	Aditya Birla Sun Life AMC Limited	30/Sep/18	1.3	23.0	4.2
5	FIL Investment Management (Singapore) Ltd.	30-Nov-18	0.6	11.3	-0.8
6	The Vanguard Group, Inc.	31/Dec/18	0.4	7.6	0.2
7	ICICI Prudential Asset Management Co. Ltd.	31-Dec-18	0.4	7.0	1.0
8	Mellon Investments Corporation	31/Jan/19	0.1	2.6	0.0
9	Dimensional Fund Advisors, L.P.	31-Dec-18	0.1	2.5	0.0
10	DSP Investment Managers Pvt. Ltd.	31/Dec/18	0.1	1.1	0.0

Source: Reuters, ICICI Direct Research

Shareholding Pattern

(in %)	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18
Promoter	88.4	88.6	88.6	88.6	88.6
FII	1.3	1.5	1.6	1.4	1.4
DII	3.4	3.0	3.1	3.4	3.5
Others	6.9	6.8	6.7	6.6	6.5

Recent Activity

Investor name	Value (m)	Shares(m)	Investor name	Value (m)	Shares(m)
Aditya Birla Sun Life AMC Limited	4.12	4.16	Goldman Sachs Asset Management International	-4.00	-3.62
ICICI Prudential Asset Management Co. Ltd.	1.04	0.95	FIL Investment Management (Singapore) Ltd.	-0.89	-0.84
The Vanguard Group, Inc.	0.22	0.21	Life Insurance Corporation of India	-0.63	-0.58
Charles Schwab Investment Management, Inc.	0.01	0.01	Reliance Nippon Life Asset Management Limited	-0.55	-0.51
Fidelity International	0.01	0.01	Goldman Sachs Asset Management (India) Private Ltd.	-0.39	-0.35

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	71,774.8	69,059.1	
Growth (%)	49.9	6.1	13.8	-3.8	
(Inc)/(Dec) in stock in trade	-288.3	-766.7	-474.2	0.0	
Raw material Costs	37488.8	43248.2	58271.7	52437.2	
Employee Costs	352.0	417.4	402.2	460.0	
Ex. Duty & Sales Tax	16222.6	14633.1	10655.5	12000.0	
Other Expenditure	947.1	1268.0	1613.5	1176.5	
Op. Expenditure	54722.3	58799.8	70468.7	66073.7	
EBITDA	4,708.3	4,283.8	1,306.1	2,985.4	
Growth (%)	162.8	-9.0	-69.5	128.6	
Depreciation	679.3	667.5	711.8	742.0	
EBIT	4029.0	3616.3	594.3	2243.4	
Interest	515.8	440.5	427.7	420.9	
Other Income	2020.5	200.5	143.5	172.0	
PBT	5533.7	3376.4	310.1	1994.5	
Growth (%)	371.5	-39.0	-90.8	543.1	
Tax	1888.9	1126.6	171.6	678.1	
Reported PAT	3,644.8	2,249.8	138.5	1,316.4	
Growth (%)	217.4	-38.3	-93.8	850.3	
EPS	20.8	12.8	0.8	7.5	

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	9,280.4	9,418.9	9,818.8	
Shareholder's Fund	10,070.5	11,033.1	11,171.6	11,571.5	
Loan Funds	8,541.0	4,577.2	4,827.2	5,077.2	
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	16,516.5	17,055.0	17,854.9	
Application of Funds					
Gross Block	15,549.0	16,082.9	16,582.9	17,082.9	
Less: Acc. Depreciation	1,388.4	2,044.6	2,764.3	3,506.3	
Net Block	14,160.6	14,038.3	13,818.5	13,576.6	
Capital WIP	219.9	667.8	1,667.8	3,167.8	
Total Fixed Assets	14,380.5	14,706.1	15,486.3	16,744.3	
Investments	1,349.7	1,349.8	1,349.8	1,349.8	
Inventories	4,039.0	4,734.7	5,899.3	5,676.1	
Debtor	2,621.2	2,660.9	3,244.6	3,121.8	
Cash	2,130.8	833.0	2,477.6	1,875.4	
Loan & Advance, Other CA	1,838.7	1,930.3	2,405.3	2,730.3	
Total Current assets	10,629.7	10,158.9	14,026.8	13,403.6	
Current Liabilities	6,926.9	9,251.2	13,765.0	13,244.2	
Provisions	344.8	447.2	42.9	398.6	
Total CL and Provisions	7,271.7	9,698.3	13,807.9	13,642.8	
Net Working Capital	3,358.0	460.6	218.9	-239.2	
Miscellaneous expense	0.0	0.0	0.0	0.0	
Application of Funds	19,088.1	16,516.5	17,055.0	17,854.9	

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	138.5	1,316.4	
Add: Depreciation	679.3	667.5	711.8	742.0	
Add: Others	699.7	429.5	150.0	150.0	
Cash Profit	3,801.7	2,532.1	1,000.3	1,291.9	
Increase/(Decrease) in CL	-15,505.8	2,426.6	4,109.6	-165.1	
(Increase)/Decrease in CA	-1,569.6	-827.1	-2,223.3	21.0	
CF from Operating Activities	-12051.7	4946.3	2886.6	2064.2	
Purchase of Fixed Assets	-9.6	993.1	1,492.0	2,000.0	
(Inc)/Dec in Investments	0.0	-0.1	0.0	0.0	
Others	0.0	0.0	0.0	1.0	
CF from Investing Activities	9.6	-993.2	-1,492.0	-2,000.0	
Inc/(Dec) in Loan Funds	465.8	-3,963.7	250.0	250.0	
Less: Dividend Paid	1,222.0	814.6	0.0	916.5	
Inc/(Dec) in Sh. Cap. & Res.	1,216.3	-472.6	0.0	0.0	
Others	0.0	0.0	0.0	0.0	
CF from financing activities	460.1	-5,250.9	250.0	-666.5	
Change in cash Eq.	-11,582.0	-1,297.8	1,644.6	-602.2	
Op. Cash and cash Eq.	13,712.8	2,130.8	833.0	2,477.6	
Cl. Cash and cash Eq.	2,130.8	833.0	2,477.6	1,875.4	

Source: Company, ICICI Direct Research

Key ratios					
(Year-end March)	FY17	FY18	FY19E	FY20E	
Per share data (₹)					
Book Value	57.5	63.0	63.7	66.0	
Cash per share	12.2	4.8	14.1	10.7	
EPS	20.8	12.8	0.8	7.5	
Cash EPS	24.7	16.6	4.9	11.7	
DPS	6.0	4.0	0.0	4.5	
Profitability & Operating Ratios					
EBITDA Margin (%)	7.9	6.8	1.8	4.3	
PAT Margin (%)	6.1	3.6	0.2	1.9	
Fixed Asset Turnover (x)	4.1	4.3	4.6	4.1	
Inventory Turnover (Days)	27.6	30.3	30.0	30.0	
Debtor (Days)	16.1	15.4	16.5	16.5	
Current Liabilities (Days)	67.4	78.1	70.0	70.0	
Return Ratios (%)					
RoE	36.2	20.4	1.2	11.4	
RoCE	21.6	23.2	3.7	13.5	
RoIC	24.4	24.5	4.4	15.2	
Valuation Ratios (x)					
PE	3.1	5.1	82.2	8.7	
Price to Book Value	1.1	1.0	1.0	1.0	
EV/EBITDA	3.8	3.5	10.5	4.9	
EV/Sales	0.3	0.2	0.2	0.2	
Leverage & Solvency Ratios					
Debt to equity (x)	0.8	0.4	0.4	0.4	
Interest Coverage (x)	7.8	8.2	1.4	5.3	
Debt to EBITDA (x)	1.8	1.1	3.7	1.7	
Current Ratio	1.5	1.0	1.0	1.0	
Quick ratio	0.9	0.6	0.6	0.6	

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(₹)			FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E
Bharat Petroleum (BHAPET)	269	275	Hold	58,353	40.3	30.4	28.7	6.6	6.7	8.8	7.0	6.5	6.9	16.9	15.7	12.6	27.1	23.2	17.4
Castrol India (CASIND)	159	140	Sell	15,727	7.2	7.2	7.5	22.2	22.1	21.2	14.0	13.7	13.1	88.3	87.1	87.2	61.6	61.0	61.1
GAIL (India) (GAIL)	333	390	Buy	75,092	15.5	20.5	27.9	21.4	16.3	11.9	12.2	9.8	7.5	11.7	14.7	18.1	9.2	11.5	14.2
Gujarat Gas (GUJGA)	147	150	Hold	10,119	4.2	5.5	6.8	34.7	26.9	21.6	13.6	13.0	11.2	15.3	19.1	29.6	15.8	25.1	43.4
Gujarat State Petronet (GSPL)	183	200	Hold	10,309	8.8	11.9	15.8	20.8	15.4	11.6	12.3	11.9	7.8	13.8	11.6	17.3	11.0	13.2	15.4
Gulf Oil Lubricants (GULO)	750	810	Hold	3,718	23.7	31.9	34.5	31.7	23.5	23.5	20.0	15.5	12.8	32.5	31.5	36.2	34.2	33.9	30.1
Hindustan Petroleum (HINPET)	230	225	Hold	35,088	13.6	13.9	8.5	5.7	5.5	9.1	5.3	5.2	7.3	19.3	17.5	10.5	30.5	26.5	15.5
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 Ltd (MAHGAS)	912	1,010	Buy	9,009	48.4	56.5	59.4	18.9	16.1	15.3	11.4	9.3	8.6	31.9	32.7	30.3	22.8	23.4	21.7
Mangalore Refinery (MRPL)	65	75	Buy	11,392	12.8	0.8	7.5	5.1	82.2	8.7	3.5	10.5	4.9	23.2	3.7	13.5	20.4	1.2	11.4
Petronet LNG (PETLNG)	210	225	Hold	31,500	13.9	15.1	16.6	15.2	13.9	12.7	9.7	8.9	7.7	25.9	28.7	29.8	21.4	22.2	21.4

Source: Company, ICICI Direct Research

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