

Mangalore Refinery & Petrochem (MRPL)

CMP: ₹ 74

Target: ₹ 90 (22%)

Target Period: 12 months

May 17, 2022

BUY

Favourable refining scenario to drive earnings...

About the stock: Mangalore Refinery & Petrochem (MRPL), a subsidiary of ONGC, is a refining company.

- The company has total refining capacity of 15 MMTPA
- ONGC Mangalore Petrochemicals (OMPL), a subsidiary of MRPL, has been amalgamated with the company

Q4FY22 Results: MRPL reported sharp growth YoY in earnings with improvement in operational performance and tax write-back.

- Revenue was up 12.8% QoQ to ₹ 28227.8 crore in Q4FY22. Crude throughput was flat QoQ at 4.4 MMT
- The company reported a sharp improvement in GRMs as per our understanding. EBITDA was ₹ 2941 crore, up 71.2% QoQ
- MRPL reported PAT of ₹ 3008.2 crore, up 413% YoY

What should investors do? Product cracks of transport fuels are currently trading at multi-quarter highs. GRMs are likely to benefit from favourable global refining scenario and the MRPL is expected to report healthy earnings in near term.

- We revise our rating on the stock from SELL to BUY

Target Price and Valuation: We roll over valuations to FY24E and value MRPL at ₹ 90/share i.e. ~1x FY24E BV).

Key triggers for future price performance:

- Sustained GRMs at elevated level
- Higher capacity utilisation
- De-leveraging balance sheet

Alternate Stock Idea: Besides MRPL, in our oil & gas coverage we also like IOC.

- Indian Oil Corporation (IOC) is India's largest refining & marketing company with an installed refining capacity of ~70 MMT. IOC's GRMs are expected to remain healthy in the near term that will offset weaker marketing profitability. Pipeline business profitability has remained consistent over the last few years
- BUY with a target price of ₹ 150



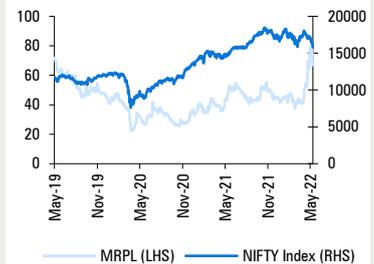
Particulars

Particulars	Amount
Market Capitalization (₹ Crore)	12,934.7
Total Debt (FY22) (₹ Crore)	21,310.4
Cash and Investments (FY22)	43.9
EV (₹ Crore)	34,201.2
52 week H/L	84/ 37
Equity capital (₹ Crore)	1,752.7
Face value (₹)	10.0

Shareholding pattern

(in %)	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Promoter	88.6	88.6	88.6	88.6	88.6
FII	0.7	0.7	0.6	0.7	0.8
DII	2.7	2.7	2.5	2.3	2.1
Others	8.0	8.1	8.3	8.3	8.6

Price Chart



Recent event & key risks

- Key Risk:** (i) Lower than expected crude throughput, (ii) Lesser than expected refining margins

Research Analyst

Harshal Mehta
harshal.mehta@icicisecurities.com

Amogh Deshpande
amogh.deshpande@icicisecurities.com

Key Financial Summary

(Year-end March)	FY20	FY21	FY22E	5 Year CAGR (FY17-22E)	FY23E	FY24E	2 Year CAGR (FY22E-24E)
Revenues (₹ crore)	60,751.5	51,019.2	86,063.7	7.7	1,08,516.5	97,060.9	6.2
EBITDA (₹ crore)	(2,534.7)	741.5	4,930.6	0.9	8,950.7	5,293.1	3.6
Net Profit (₹ crore)	(2,740.3)	(240.3)	2,955.3	(4.1)	5,196.9	2,562.8	(6.9)
EPS (₹)	(15.6)	(1.4)	16.9		29.7	14.6	
P/E (x)	(4.7)	(53.8)	4.4		2.5	5.0	
Price / Book (x)	1.7	1.7	1.8		1.1	0.9	
EV/EBITDA (x)	(9.2)	38.1	6.9		3.1	4.8	
RoCE (%)	(18.2)	(0.5)	13.5		25.6	13.7	
RoE (%)	(35.1)	(3.2)	41.1		42.3	17.4	

Source: Company, ICICI Direct Research. FY21 numbers are pre-amalgamated. FY22E numbers are restated post amalgamation

Key takeaways of recent quarter

Q4FY22 Results: Strong product cracks drive profitability

- Revenue growth was on account of increase in product prices. Crude throughput was 4.4 MMT, up ~9% YoY and flat QoQ
- As per our understanding, sharp growth in product cracks has driven profitability
- ONGC Mangalore Petrochemicals (OMPL), a wholly owned subsidiary of the company was amalgamated with MRPL. OMPL is primarily engaged in operating a petrochemicals project consisting of an aromatic complex situated in Mangalore SEZ for production of Paraxylene, Benzene and other products
- Taking into account current product cracks trend, we expect GRMs at US\$12/bbl and US\$8/bbl in FY23E and FY24E, respectively
- We expect capacity utilisation to remain elevated and estimate refining throughput of 16.4 MMT in FY23E and FY24E each

Peer comparison

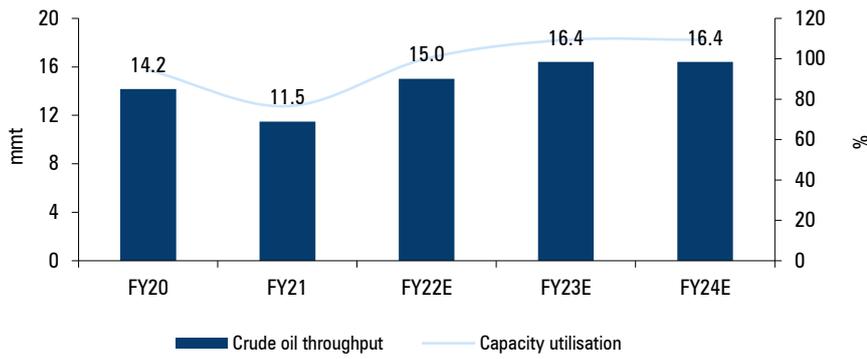
Exhibit 1: Peer Comparison

Sector / Company	CMP (₹)	TP (₹)	Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
					FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
BPCL (BHAPET)	357	450	Buy	74,717	47.8	39.8	44.2	7.5	9.0	8.1	5.7	6.0	5.4	15.8	13.1	13.7	20.6	15.8	16.0
HPCL (HINPET)	268	320	Hold	38,027	40.6	44.2	45.4	6.6	6.1	5.9	7.5	6.0	5.6	8.1	9.3	9.0	14.9	14.8	13.9
Indian Oil Corp (INDOIL)	126	150	Buy	1,15,681	28.6	19.2	21.9	4.4	6.6	5.8	2.5	3.1	2.8	15.5	10.5	11.1	20.1	12.7	13.3
MRPL (MRPL)	74	85	Buy	12,935	16.9	29.7	14.6	4.4	2.5	5.0	6.9	3.1	4.8	13.5	25.6	13.7	41.1	42.3	17.4

Source: Company, ICICI Direct Research

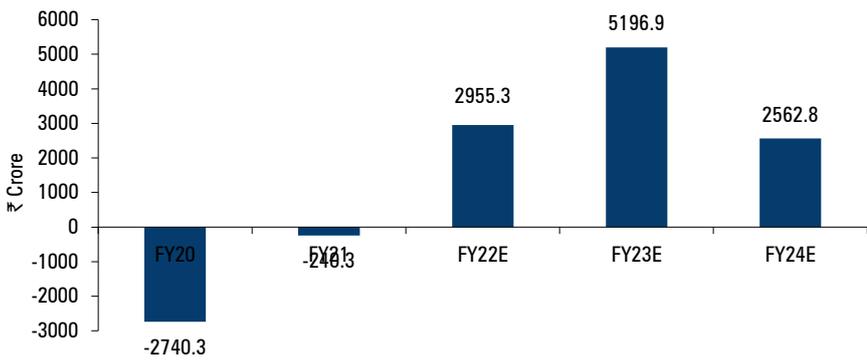
Story in charts

Exhibit 2: Volume trajectory



Source: Company, ICICI Direct Research

Exhibit 3: Net profit trend



Source: Company, ICICI Direct Research, FY21 numbers are pre-amalgamated, FY22E numbers are restated post amalgamation

Financial Summary

Exhibit 4: Profit and loss statement ₹ crore

(Year-end March)	FY21	FY22E	FY23E	FY24E
Revenue	51019.2	86063.7	108516.5	97060.9
Growth (%)	-16.0	68.7	26.1	-10.6
(Inc)/(Dec) in stock in trade	-1202.8	-1372.8	0.0	0.0
Raw material Costs	30600.4	63598.8	83526.2	74734.0
Employee Costs	510.9	697.6	620.0	660.0
Ex. Duty & Sales Tax	18836.8	16336.6	14000.0	15000.0
Other Expenditure	1532.4	1872.8	1419.6	1373.8
Op. Expenditure	50277.7	81133.1	99565.9	91767.8
EBITDA	741.5	4930.6	8950.7	5293.1
Growth (%)	-129.3	565.0	81.5	-40.9
Depreciation	853.0	1087.7	1157.4	1183.4
EBIT	-111.5	3842.9	7793.2	4109.7
Interest	352.1	1207.3	985.5	835.5
Other Income	118.5	72.8	140.0	152.0
PBT	-345.1	2708.3	6947.7	3426.2
Growth (%)	-91.3	-884.8	156.5	-50.7
Tax	-104.8	-246.9	1750.8	863.4
Reported PAT	-240.3	2955.3	5196.9	2562.8
Growth (%)	-91.2	NM	75.9	-50.7
EPS	-1.4	16.9	29.7	14.6

Source: Company, ICICI Direct Research, FY21 numbers are pre-amalgamated, FY22E numbers are restated post amalgamation

Exhibit 6: Balance Sheet ₹ crore

(Year-end March)	FY21	FY22E	FY23E	FY24E
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	5,775.7	5,443.7	10,538.7	12,999.7
Shareholder's Fund	7,528.4	7,196.3	12,291.4	14,752.3
Loan Funds	15,359.2	21,310.4	18,110.4	15,310.4
Deferred Tax Liability	0.0	0.0	0.0	0.0
Minority Interest	0.0	0.0	0.0	0.0
Source of Funds	22887.6	28506.8	30401.8	30062.8
Application of Funds				
Gross Block	17,995.9	26,627.8	27,162.8	27,797.8
Less: Acc. Depreciation	4,288.4	5,244.0	6,401.4	7,584.8
Net Block	13,707.4	21,383.8	20,761.4	20,213.0
Capital WIP	2,359.3	169.8	569.8	969.8
Total Fixed Assets	16,066.7	21,553.6	21,331.1	21,182.8
Investments	3,394.8	15.5	15.5	15.5
Inventories	6,609.9	10,486.9	10,405.7	9,307.2
Debtor	2,416.5	4,327.7	4,459.6	3,988.8
Cash	52.1	43.9	2,901.3	2,874.5
Loan & Advance, Other CA	2206.2	3630.8	3780.8	3930.8
Total Current assets	11284.6	18489.2	21547.4	20101.4
Current Liabilities	7191.7	10912.1	11892.2	10636.8
Provisions	666.8	639.4	600.0	600.0
Total CL and Provisions	7858.5	11551.5	12492.2	11236.8
Net Working Capital	3426.1	6937.7	9055.2	8864.5
Miscellaneous expense	0.0	0.0	0.0	0.0
Application of Funds	22887.6	28506.8	30401.9	30062.8

Source: Company, ICICI Direct Research, FY21 numbers are pre-amalgamated, FY22E numbers are restated post amalgamation

Exhibit 5: Cash flow statement ₹ crore

(Year-end March)	FY21	FY22E	FY23E	FY24E
Profit after Tax	-240.3	2,955.3	5,196.9	2,562.8
Add: Depreciation	853.0	1,087.7	1,157.4	1,183.4
Add: Others	0.0	819.6	0.0	0.0
Cash Profit	612.7	4,862.5	6,252.5	3,644.3
Increase/(Decrease) in CL	636.6	5,133.2	940.7	-1,255.4
(Increase)/Decrease in CA	-3,578.7	-5,302.9	-200.8	1,419.3
CF from Operating Activities	-2329.4	4692.8	7094.3	3910.0
Purchase of Fixed Assets	950.2	701.8	935.0	1,035.0
(Inc)/Dec in Investments	-1,637.2	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0
CF from Investing Activities	-2,587.4	-701.8	-935.0	-1,035.0
Inc/(Dec) in Loan Funds	4,971.6	-2,955.3	-3,200.0	-2,800.0
Less: Dividend Paid	0.0	0.0	101.8	101.8
Inc/(Dec) in Sh. Cap. & Res. ₹	-30.8	-1,043.9	0.0	0.0
Others	0.0	0.0	0.0	0.0
CF from financing activities	4,940.8	-3,999.2	-3,301.8	-2,901.8
Change in cash Eq.	24.0	-8.2	2,857.5	-26.8
Op. Cash and cash Eq.	28.0	52.1	43.9	2,901.3
Cl. Cash and cash Eq.	52.1	43.9	2,901.3	2,874.5

Source: Company, ICICI Direct Research, FY21 numbers are pre-amalgamated, FY22E numbers are restated post amalgamation

Exhibit 7: Key ratios

(Year-end March)	FY21	FY22E	FY23E	FY24E
Per share data (₹)				
Book Value	43.0	41.1	70.1	84.2
Cash per share	0.3	0.3	16.6	16.4
EPS	-1.4	16.9	29.7	14.6
Cash EPS	3.5	23.1	36.3	21.4
DPS	0.0	0.0	0.5	0.5
Profitability & Operating Ratios				
EBITDA Margin (%)	1.5	5.7	8.2	5.5
PAT Margin (%)	-0.5	3.4	4.8	2.6
Fixed Asset Turnover (x)	3.2	4.0	5.1	4.6
Inventory Turnover (Days)	50.0	48.7	35.0	35.0
Debtor (Days)	17.3	18.4	15.0	15.0
Current Liabilities (Days)	85.8	62.6	40.0	40.0
Return Ratios (%)				
RoE	-3.2	41.1	42.3	17.4
RoCE	-0.5	13.5	25.6	13.7
RoIC	-0.5	13.5	28.3	15.1
Valuation Ratios (x)				
PE	-53.8	4.4	2.5	5.0
Price to Book Value	1.7	1.8	1.1	0.9
EV/EBITDA	38.1	6.9	3.1	4.8
EV/Sales	0.6	0.4	0.3	0.3
Leverage & Solvency Ratios				
Debt to equity (x)	2.0	3.0	1.5	1.0
Interest Coverage (x)	-0.3	3.2	7.9	4.9
Debt to EBITDA (x)	20.7	4.3	2.0	2.9
Current Ratio	1.4	1.6	1.7	1.8
Quick ratio	0.6	0.7	0.9	1.0

Source: Company, ICICI Direct Research, FY21 numbers are pre-amalgamated, FY22E numbers are restated post amalgamation

Exhibit 8: ICICI Direct coverage universe

Sector / Company	CMP (₹)	TP (₹)	Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
					FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
BPCL (BHAPET)	357	450	Buy	74,717	47.8	39.8	44.2	7.5	9.0	8.1	5.7	6.0	5.4	15.8	13.1	13.7	20.6	15.8	16.0
GAIL (India) (GAIL)	160	180	Buy	71,046	23.5	17.8	18.2	6.8	9.0	8.8	5.2	6.7	6.6	19.3	13.0	12.2	19.3	13.3	12.6
Gujarat Gas (GUJGA)	537	625	Buy	36,995	18.9	19.7	24.1	28.4	27.3	22.3	18.1	17.2	14.1	26.9	24.2	25.3	23.2	20.3	20.7
HPCL (HINPET)	268	320	Hold	38,027	40.6	44.2	45.4	6.6	6.1	5.9	7.5	6.0	5.6	8.1	9.3	9.0	14.9	14.8	13.9
Indian Oil Corp (INDOIL)	126	150	Buy	1,15,681	28.6	19.2	21.9	4.4	6.6	5.8	2.5	3.1	2.8	15.5	10.5	11.1	20.1	12.7	13.3
Indraprastha Gas (INDGAS)	349	395	Buy	24,430	18.7	15.2	18.2	18.7	22.9	19.2	12.5	14.5	12.0	22.9	16.4	17.7	19.2	14.2	15.1
Mahanagar Gas (MAHGAS)	745	820	Hold	7,359	60.4	71.3	78.1	12.3	10.4	9.5	7.6	6.3	5.6	20.1	21.4	21.1	16.9	17.9	17.5
Petronet LNG (PETLNG)	206	210	Hold	30,840	22.3	17.6	21.2	9.2	11.7	9.7	5.7	6.5	5.4	27.0	20.1	22.7	25.0	18.9	21.1
Reliance Industries (RELIND)	2,621	3,050	Buy	17,73,208	89.7	128.7	130.9	29.2	20.4	20.0	18.0	11.9	10.9	7.7	11.5	11.4	8.5	11.0	10.4

Source: Bloomberg, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruiti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

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