

Mangalore Refinery & Petrochem (MRPL)

CMP: ₹ 55

Target: ₹ 60 (9%)

Target Period: 12 months

HOLD

November 2, 2022

Negative reported GRMs drag 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

Q2FY23 Results: MRPL reported weak results on the profitability front.

- Revenue was up 60.8% YoY to ₹ 28452.9 crore in Q2FY23. Crude throughput was up 23.4% YoY at 3.96 MMT
- The company reported a GRM loss of US\$4.46/bbl. EBITDA loss was ₹ 1994.8 crore
- MRPL reported net loss of ₹ 1789.1 crore

What should investors do? MRPL's GRM during the quarter declined from the highs seen in Q1FY23. With the imposition of windfall tax on export of fuels, any potential upside is likely to be capped.

- We revise our rating on the stock from BUY to **HOLD**

Target Price and Valuation: We value MRPL at ₹ 60/share i.e. ~0.7x 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 Gail

- Gail is a beneficiary of increasing gas consumption. Stable volume growth along with higher profitability from gas trading, petchem and LPG segment due to higher oil prices will add value
- BUY with a target price of ₹ 100



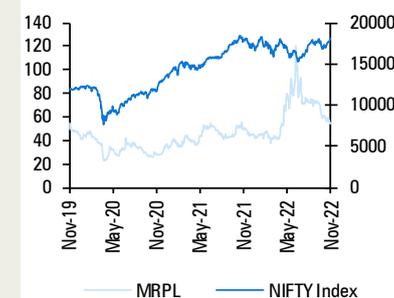
Particulars

Particular	Amount
Market Capitalization (₹ Crore)	9,587.1
Total Debt (FY22) (₹ Crore)	21,310.4
Cash and Investments (FY22)	43.9
EV (₹ Crore)	30,853.6
52 week H/L	127/ 37
Equity capital (₹ Crore)	1,752.7
Face value (₹)	10.0

Shareholding pattern

(in %)	Dec-21	Mar-22	Jun-22	Sep-22
Promoter	88.6	88.6	88.6	88.6
FII	0.7	0.8	1.6	1.6
DII	2.3	2.1	1.6	0.3
Others	8.3	8.6	8.3	9.5

Price Chart



Recent event & key risks

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

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Key Financial Summary

(Year-end March)	FY20	FY21	FY22	5 Year CAGR (FY17-22E)	FY23E	FY24E	2 Year CAGR (FY22-24E)
Revenues (₹ crore)	60,751.5	51,019.2	86,063.7	7.7	1,17,448.9	97,655.0	6.5
EBITDA (₹ crore)	(2,534.7)	741.5	4,930.6	0.9	6,232.2	4,946.4	0.2
Net Profit (₹ crore)	(2,740.3)	(240.3)	2,955.3	(4.1)	2,753.4	2,176.8	(14.2)
EPS (₹)	(15.6)	(1.4)	16.9		15.7	12.4	
P/E (x)	(3.5)	(39.9)	3.2		3.5	4.4	
Price / Book (x)	1.2	1.3	1.3		1.0	0.8	
EV/EBITDA (x)	(7.9)	33.6	6.3		4.6	5.1	
RoCE (%)	(18.2)	(0.5)	13.5		17.3	12.6	
RoE (%)	(35.1)	(3.2)	41.1		28.0	18.3	

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

Key takeaways of recent quarter

Q2FY23 Results: Refining losses and windfall taxes dent margins

- Revenue declined 20.8%QoQ. Crude throughput was down 7.7% QoQ
- Windfall tax levied by the government on export of fuels had an impact of ₹ 1026 crore on financials. Similarly, decline in domestic refinery price had an impact of ₹ 1163 crore
- 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 the current product cracks trend, we expect GRMs at US\$10.3/bbl and US\$7.5/bbl in FY23E and FY24E, respectively
- We expect capacity utilisation to remain elevated and estimate refining throughput of 16 MMT in FY23E and FY24E each

Peer comparison

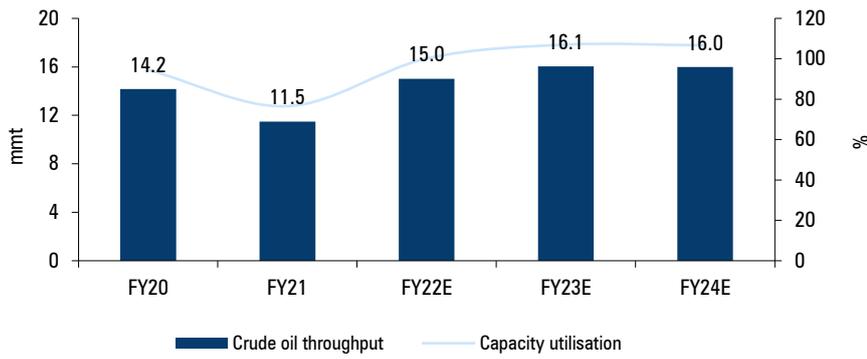
Exhibit 1: Peer Comparison

Sector / Company	CMP (₹)	TP (₹)	Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
					FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
BPCL (BHAPET)	339	350	Hold	68,840	41.3	-19.3	82.3	8.2	-17.5	4.1	6.4	173.4	3.4	15.1	-2.8	24.4	17.5	-9.0	29.8
HPCL (HINPET)	248	260	Hold	35,190	44.9	-67.4	42.5	5.5	-3.7	5.8	8.0	-11.4	7.7	7.3	-14.4	7.8	16.5	-32.8	18.6
Indian Oil Corp (INDOIL)	68	75	Hold	96,024	17.1	3.4	14.0	4.0	19.9	4.8	2.2	4.9	2.3	12.9	2.9	10.1	18.4	3.8	14.8
MRPL (MRPL)	55	60	Hold	9,640	16.9	15.7	12.4	3.3	3.5	4.4	6.3	4.6	5.1	13.5	17.3	12.6	41.1	27.9	18.3

Source: Company, ICICI Direct Research

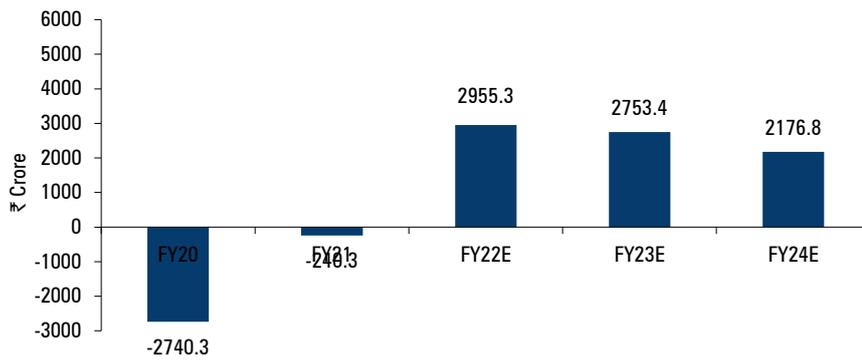
Story in charts

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	FY22	FY23E	FY24E
Revenue	51019.2	86063.7	117421.9	97655.0
Growth (%)	-16.0	68.7	36.4	-16.8
(Inc)/(Dec) in stock in trade	-1202.8	-1372.8	-374.9	0.0
Raw material Costs	30600.4	63598.8	93901.5	76247.0
Employee Costs	510.9	697.6	607.0	660.0
Ex. Duty & Sales Tax	18836.8	16336.6	14470.6	14400.0
Other Expenditure	1532.4	1872.8	2594.0	1401.6
Op. Expenditure	50277.7	81133.1	111198.2	92708.6
EBITDA	741.5	4930.6	6223.7	4946.4
Growth (%)	-129.3	565.0	26.2	-20.5
Depreciation	853.0	1087.7	1217.8	1285.2
EBIT	-111.5	3842.9	5005.9	3661.2
Interest	352.1	1207.3	1122.3	903.0
Other Income	118.5	72.8	138.4	152.0
PBT	-345.1	2708.3	4022.0	2910.1
Growth (%)	-91.3	-884.8	48.5	-27.6
Tax	-104.8	-246.9	1275.0	733.4
Reported PAT	-240.3	2955.3	2747.0	2176.8
Growth (%)	-91.2	NM	-7.0	-20.8
EPS	-1.4	16.9	15.7	12.4

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	FY22	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	8,088.8	10,163.8
Shareholder's Fund	7,528.4	7,196.3	9,841.5	11,916.5
Loan Funds	15,359.2	21,310.4	19,060.4	17,060.4
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	28902.0	28976.9
Application of Funds				
Gross Block	17,995.9	28,542.7	29,277.7	30,112.7
Less: Acc. Depreciation	4,288.4	7,158.9	8,409.4	9,694.6
Net Block	13,707.4	21,383.8	20,868.3	20,418.1
Capital WIP	2,359.3	169.8	269.8	369.8
Total Fixed Assets	16,066.7	21,553.6	21,138.1	20,787.9
Investments	3,394.8	15.5	15.5	15.5
Inventories	6,609.9	10,486.9	12,224.7	10,166.8
Debtor	2,416.5	4,327.7	4,825.6	4,013.2
Cash	52.1	43.9	212.7	1,562.1
Loan & Advance, Other CA	2206.2	3630.8	3780.8	3930.8
Total Current assets	11284.6	18489.2	21043.9	19673.0
Current Liabilities	7191.7	10912.1	12868.2	10701.9
Provisions	666.8	639.4	427.3	797.5
Total CL and Provisions	7858.5	11551.5	13295.5	11499.4
Net Working Capital	3426.1	6937.7	7748.4	8173.6
Miscellaneous expense	0.0	0.0	0.0	0.0
Application of Funds	22887.6	28506.8	28902.0	28976.9

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	FY22	FY23E	FY24E
Profit after Tax	-240.3	2,955.3	2,747.0	2,176.8
Add: Depreciation	853.0	1,087.7	1,217.8	1,285.2
Add: Others	0.0	819.6	0.0	0.0
Cash Profit	612.7	4,862.5	3,862.9	3,360.2
Increase/(Decrease) in CL	636.6	5,133.2	1,744.0	-1,796.0
(Increase)/Decrease in CA	-3,578.7	-5,302.9	-2,385.8	2,720.3
CF from Operating Activi	-2329.4	4692.8	3322.9	4386.2
Purchase of Fixed Assets	950.2	701.8	802.3	935.0
(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 Activi	-2,587.4	-701.8	-802.3	-935.0
Inc/(Dec) in Loan Funds	4,971.6	-2,955.3	-2,250.0	-2,000.0
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 activiti	4,940.8	-3,999.2	-2,351.8	-2,101.8
Change in cash Eq.	24.0	-8.2	168.8	1,349.4
Op. Cash and cash Eq.	28.0	52.1	43.9	212.7
Cl. Cash and cash Eq.	52.1	43.9	212.7	1,562.1

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

Exhibit 7: Key ratios				
(Year-end March)	FY21	FY22	FY23E	FY24E
Per share data (₹)				
Book Value	43.0	41.1	56.2	68.0
Cash per share	0.3	0.3	1.2	8.9
EPS	-1.4	16.9	15.7	12.4
Cash EPS	3.5	23.1	22.6	19.8
DPS	0.0	0.0	0.5	0.5
Profitability & Operating Ratios				
EBITDA Margin (%)	1.5	5.7	5.3	5.1
PAT Margin (%)	-0.5	3.4	2.3	2.2
Fixed Asset Turnover (x)	3.2	4.0	5.6	4.7
Inventory Turnover (Days)	50.0	48.7	38.0	38.0
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	27.9	18.3
RoCE	-0.5	13.5	17.3	12.6
RoIC	-0.5	13.5	17.4	13.4
Valuation Ratios (x)				
PE	-40.1	3.3	3.5	4.4
Price to Book Value	1.3	1.3	1.0	0.8
EV/EBITDA	33.6	6.3	4.6	5.1
EV/Sales	0.5	0.4	0.2	0.3
Leverage & Solvency Ratios				
Debt to equity (x)	2.0	3.0	1.9	1.4
Interest Coverage (x)	-0.3	3.2	4.5	4.1
Debt to EBITDA (x)	20.7	4.3	3.1	3.4
Current Ratio	1.4	1.6	1.6	1.7
Quick ratio	0.6	0.7	0.7	0.8

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

Exhibit 8: ICICI Direct coverage universe (Oil & Gas)

Sector / Company	CMP (₹)	TP (₹)	Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
					FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
BPCL (BHAPET)	339	350	Hold	68,840	41.3	-19.3	82.3	8.2	-17.5	4.1	6.4	173.4	3.4	15.1	-2.8	24.4	17.5	-9.0	29.8
GAIL (India) (GAIL)	84	100	Buy	55,231	23.3	13.7	8.9	3.6	6.1	9.4	3.0	4.7	7.2	18.8	15.1	8.4	18.6	14.7	9.1
Gujarat Gas (GUJGA)	500	480	Hold	34,420	18.9	23.4	20.9	26.4	21.4	23.9	16.4	13.5	14.6	27.0	28.2	21.8	23.1	23.2	17.9
HPCL (HINPET)	248	260	Hold	35,190	44.9	-67.4	42.5	5.5	-3.7	5.8	8.0	-11.4	7.7	7.3	-14.4	7.8	16.5	-32.8	18.6
Indian Oil Corp (INDOIL)	68	75	Hold	96,024	17.1	3.4	14.0	4.0	19.9	4.8	2.2	4.9	2.3	12.9	2.9	10.1	18.4	3.8	14.8
Indraprastha Gas (INDGAS)	381	430	Hold	26,670	18.8	21.7	20.9	20.3	17.6	18.3	13.5	11.5	10.8	22.3	22.5	20.2	19.0	18.8	16.1
Mahanagar Gas (MAHGAS)	845	820	Hold	8,347	60.4	58.9	84.8	14.0	14.3	10.0	8.6	8.6	6.0	19.8	17.7	23.1	16.6	15.0	19.0
ONGC (ONGC)	124	135	Hold	1,59,133	8.9	32.0	37.1	13.9	3.9	3.3	5.4	2.8	2.0	4.5	14.8	20.9	5.5	17.0	17.3
Petronet LNG (PETLNG)	200	210	Hold	30,000	22.3	17.7	19.2	8.9	11.3	10.4	5.5	6.6	5.8	27.0	20.0	20.8	25.0	19.0	19.5
Reliance Industries (RELIND)	2,472	2,700	Hold	16,72,274	89.7	94.5	118.0	27.5	26.2	20.9	18.0	13.6	11.2	7.1	8.7	10.3	7.8	7.6	8.7

Source: Bloomberg, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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