

May 6, 2024

RESULT REPORT Q4 FY24 | Sector: Energy

Mangalore Refinery & Petrochemicals Ltd

In line performance with healthy reported GRMs

Our View

Mangalore Refinery Petrochemical's Q4 FY24 core performance was healthy, with an EBITDA of Rs 23.3bn; \$11.4/bbl of reported GRM (our est. USD11.2) on narrowing Russian crude discounts. As per our calculations, the inventory losses could be at USD1/bbl. There was an impact of SAED of Rs 0.44bn (USD0.16/bbl) and RTP reduction of Rs 0.36bn (USD0.13/bbl) during the quarter. The company has declared a final dividend of Rs2/shr after 5-years. We lower the rating to ADD from earlier BUY rating given the stock price rally, with maintaining a TP of Rs257.

Result Highlights

- EBITDA/PAT at Rs bn 23.3/11.5, performance on YoY basis declining by 33%/40% while on QoQ basis it was higher by 101%/195%. The EBITDA was in-line with our and higher than consensus est. on conforming core GRMs, SAED impact stood at Rs 0.44bn (USD0.16/bbl). The reported GRM was USD11.4/bbl (USD5 the previous quarter, USD15.1 a year ago) while the Arab heavy-light difference was USD1.8/bbl (lower than the prior quarter). The assumed core GRM at USD9.54/bbl (USD7.5 the quarter prior, USD16.8 a year back) was at a premium of USD2.2/bbl to the benchmark of USD7.3. The Russian crude discounts have fallen and are lower ~USD2-3/bbl. The cracks for major products: gasoil USD21.4/bbl, ATF USD21.2 and gasoline at USD13.6.
- As per our assumptions, the Inventory gain could be at USD1/bbl (Rs2.8bn) vs a loss of USD2.5 the previous quarter and a loss of USD4.3 a year ago. Refinery throughput was 4.5mmt at ~119% utilisation (117% the prior quarter, 119% a year ago) The opex stood lower at USD4.1/bbl, largely on higher employee expenses. Windfall impact: There was an impact of SAED of Rs 0.08bn (USD0.03/bbl) and RTP Rs 0.36bn (USD0.13/bbl) during the quarter.
- The debt stood at Rs124.5bn, down Rs15.6bn QoQ Rs42.6bn on YoY basis supported by stronger GRMs, FCF and reduction in working capital requirements. Capex for the qtr was Rs7.8bn (Rs 14.4bn in FY24), per PPAC and FY24 capex was targeted at Rs 8.2bn.
- FY24 performance: EBITDA at Rs 77bn (vs Rs 65bn last year) while PAT at Rs 36bn (vs Rs 26.4bn previous period last year) and the reported GRM at USD10.36/bbl (vs USD9.88). The FCF is at Rs 33.4bn (vs Rs 31.8bn last year).

Valuation

The GRM sensitivity for the stock is high: a \$1/bbl change in GRM changes EBITDA by Rs 9.9bn. BV/share for FY25e/26e: Rs 85.5/97.4; debt: equity at 0.7/0.5x FY25e/26e vs 0.9x in FY24. At CMP, stock trades at 10x/9.6x FY25e/26e EV/EBITDA & 2.7x/2.4x P/BV We lower the rating to ADD from earlier BUY rating given the stock price rally, with maintaining a TP of Rs257, valuing stock at 10.7x FY26e EV/EBITDA.

Exhibit 1: Actual vs estimate

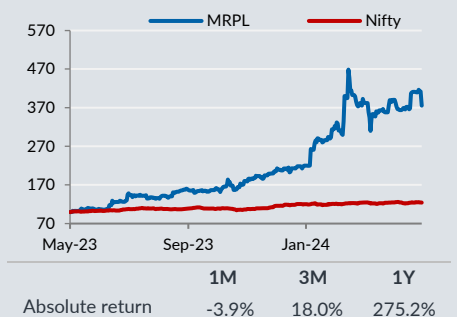
Rs mn	Actual	Estimate		% Variation		Remarks
		YES Sec	Consensus	YES Sec	Consensus	
Sales	253,287	253,667	233,717	-0.15	8.37	
EBITDA	23,297	23,114	17,481	0.79	33.27	In line estimates on healthy GRMs
EBITDA Margin (%)	9.20	9.11	7.48	860bps	17185bps	
Adjusted PAT	11,451	11,792	7,968	-2.89	43.72	

Reco	: ADD
CMP	: Rs 229
Target Price	: Rs 257
Potential Return	: +12%

Stock data (as on May 6, 2024)

Nifty	22,443
52 Week h/l (Rs)	289 / 60
Market cap (Rs/USD mn)	440779 / 5279
Outstanding Shares (mn)	1,753
6m Avg t/o (Rs mn):	1,393
Div yield (%):	-
Bloomberg code:	MRPL IN
NSE code:	MRPL

Stock performance



Shareholding pattern (As of Mar '24 end)

Promoter	88.6%
FII+DII	4.2%
Others	7.2%

Δ in stance

(1-Yr)	New	Old
Rating	ADD	BUY
Target Price	257	257

Δ in estimates

(1-Yr)	FY25e	FY26e
EPS (New)	12.2	12.4
EPS (Old)	15.7	12.3
% Change	(22.0)	1.0

Financial Summary

(Rs bn)	FY24	FY25E	FY26E
Revenue	904.1	869.3	779.0
YoY Growth	(19.2)	(1.1)	(11.3)
EBIDTA	77.0	51.4	53.2
OPM %	8.5	5.9	6.8
PAT	36.0	21.5	21.8
YoY Growth	36.6	(40.4)	1.7
ROE	27.1	14.2	12.9
EPS	20.5	12.2	12.4
P/E	11.2	18.7	18.4
BV	75.6	86.3	96.8
EV/EBITDA	6.8	10.0	9.6

HARSHRAJ AGGARWAL

Lead Analyst

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Exhibit 2: Earnings snapshot

Particulars (Rs mn)	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24	YoY (%)	QoQ (%)	FY23	FY24	YoY (%)
Revenue	254,009	211,731	192,297	246,671	253,287	(0.3)	2.7	1,088,561	903,985	(17.0)
Expenditure	219,108	191,048	170,914	235,076	229,990	5.0	(2.2)	1,023,595	827,028	(19.2)
-Raw Material	212,321	183,945	160,308	231,944	220,613	3.9	(4.9)	986,691	796,809	(19.2)
-Staff Cost	2,481	1,494	1,597	1,626	3,004	21.1	84.8	6,978	7,721	10.6
- Other Expenses	4,305	5,609	9,010	1,507	6,373	48.0	323.0	29,926	22,498	(24.8)
Operating Profit	34,902	20,683	21,382	11,595	23,297	(33.2)	100.9	64,966	76,958	18.5
OPM(%)	13.7	9.8	11.1	4.7	9.2	-454 bps	450 bps	6.0	8.5	255 bps
Other Income	861	518	745	396	393	(54.4)	(0.8)	2,117	2,051	(3.1)
Depreciation	2,962	2,940	2,960	3,343	3,330	12.4	(0.4)	11,867	12,573	5.9
Interest	3,300	2,673	3,112	2,736	2,617	(20.7)	(4.3)	12,853	11,138	(13.3)
Excpnl Loss/(Profit)	-	-	-	-	83	n.a.	n.a.	(25)	83	n.a.
PBT	29,500	15,588	16,055	5,912	17,825	(39.6)	201.5	42,339	55,380	30.8
Tax	10,421	5,461	5,462	2,041	6,291	(39.6)	208.2	16,005	19,255	20.3
PAT	19,080	10,127	10,593	3,871	11,534	(39.5)	198.0	26,334	36,125	37.2
Adj PAT	19,080	10,127	10,593	3,871	11,451	(40.0)	195.9	26,359	36,042	36.7

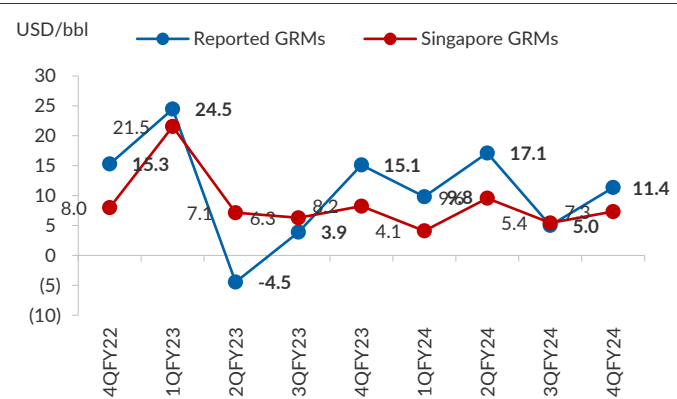
Exhibit 3: Operating highlights

Particulars	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24	YoY (%)	QoQ (%)	FY23	FY24	YoY (%)
Volumes										
Throughput	4.4	4.4	3.2	4.4	4.5	2.3	2.0	17.1	16.5	(3.7)
Utilisation %	119.2	116.6	84.9	116.9	119.3	5 bps	238 bps	114.3	109.4	(4.3)
GRMs										
Reported GRMs	15.1	9.8	17.1	5.0	11.4	(24.9)	127.0	10.0	10.4	3.7
Inv gains/ (loss)	(1.7)	(1.6)	7.0	(2.5)	1.0	(159.9)	(140.0)	(1.7)	0.5	(132.9)
Core GRMs	16.8	11.4	10.1	7.5	10.4	(38.4)	38.0	11.6	9.8	(15.7)
Singapore GRMs	8.2	4.1	9.6	5.4	7.3	(11.0)	35.0	10.8	6.4	(40.8)
Export duty - SAED										
Rs mn	1,810	20	910	1,880	80	(95.6)	(95.7)	17,360	2,890	(83.4)
US\$/bbl	0.7	0.0	0.5	0.7	0.0	(95.7)	(95.8)	1.7	0.3	(83.2)
Export duty - RTP Reduction										
Rs mn	6,990	170	3,720	2,530	360	(94.8)	(85.8)	33,790	6,780	(79.9)
US\$/bbl	2.6	0.1	1.9	0.9	0.1	(95.0)	(86.0)	3.2	0.7	(79.6)
Rs mn										
Standalone Debt (Incl. OMPL)	167,074	151,662	139,779	140,134	124,518	(25.5)	(11.1)	167,074	124,518	(25.5)
Capex	3,020	1,680	2,320	3,380	7,750	156.6	129.3	6,410	15,130	136.0
Forex Gains/(losses)	962	66	(1,046)	(248)	(98)	(110.2)	(60.4)	(13,375)	(1,326)	(90.1)
FCF (PAT+Dep-Capex)	19,022	11,388	11,233	3,833	6,949	(63.5)	81.3	31,841	33,402	4.9

Key result highlights:

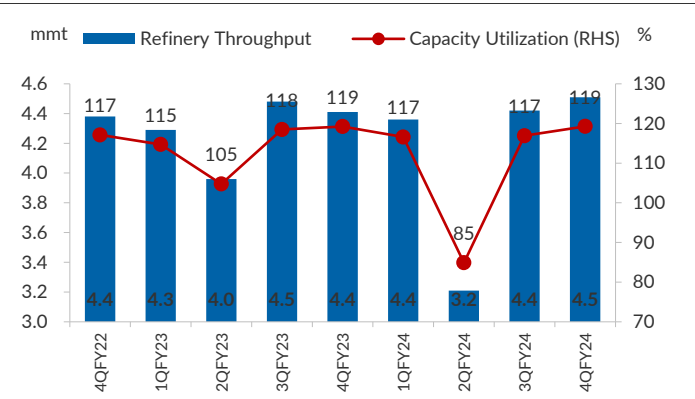
- **EBITDA/PAT** at Rs bn 23.3/11.5, performance on YoY basis declining by 33%/40% while on QoQ basis it was higher by 101%/195%. The EBITDA was in-line with our and higher than consensus est. on conforming core GRMs, SAED impact stood at Rs 0.44bn (USD0.16/bbl).
- MRPL's Q4FY24 **reported GRM** was USD11.4/bbl (USD5 the previous quarter, USD15.1 a year ago) while the Arab heavy-light difference was USD1.8/bbl (lower than the prior quarter). The GRM was largely in consonance with our expectations (USD11.2/bbl).
- The assumed **core GRM** at USD9.54/bbl (USD7.5 the quarter prior, USD16.8 a year back) was at a premium of USD2.2/bbl to the benchmark of USD7.3. The Russian crude discounts have fallen and are lower ~USD2-3/bbl. The cracks for major products: gasoil USD21.4/bbl, ATF USD21.2 and gasoline at USD13.6.
- As per our assumptions, the **Inventory gain** could be at USD1/bbl (Rs2.8bn) vs a loss of USD2.5 the previous quarter and a loss of USD4.3 a year ago.
- **Refinery throughput** was 4.5mmt at ~119% utilisation (117% the prior quarter, 119% a year ago).
- **The opex** stood lower at USD4.1/bbl, largely on higher employee expenses.
- **Windfall impact:** There was an impact of SAED of Rs 0.08bn (USD0.03/bbl) and RTP Rs 0.36bn (USD0.13/bbl) during the quarter.
- The Rs 98mn **forex loss** marginally impacted the profitability.
- The **debt** stood at Rs124.5bn, down Rs15.6bn QoQ Rs42.6bn on YoY basis supported by stronger GRMs, FCF and reduction in working capital requirements.
- **Capex** for the qtr was Rs7.8bn (Rs 14.4bn in FY24), per PPAC and FY24 capex was targeted at Rs 8.2bn (major investment in adding 70 Retail outlets (ROs), projects within refineries, existing projects, marketing terminal at Devangonthe and Bitumen blowing unit).
- **FY24 performance:** EBITDA at Rs 77bn (vs Rs 65bn last year) while PAT at Rs 36bn (vs Rs 26.4bn previous period last year) and the reported GRM at USD10.36/bbl (vs USD9.88). The FCF is at Rs 33.4bn (vs Rs 31.8bn last year).
- The company has declared a final dividend of Rs2/shr, earlier interim dividend of Rs1/shr, ~15% dividend payout for FY24.

Exhibit 4: GRMs



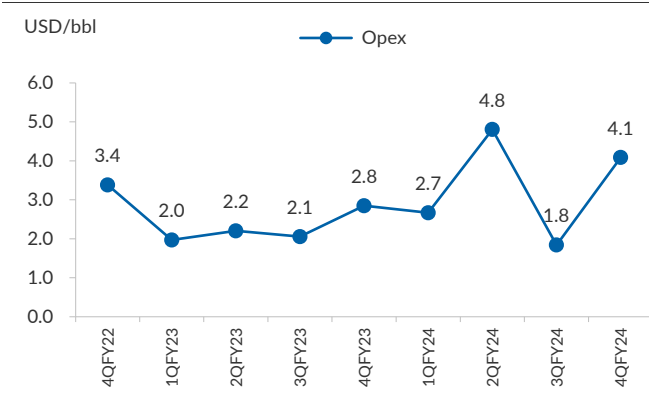
Source: PPAC, Company, YES Sec

Exhibit 5: Refining throughput, capacity utilisation



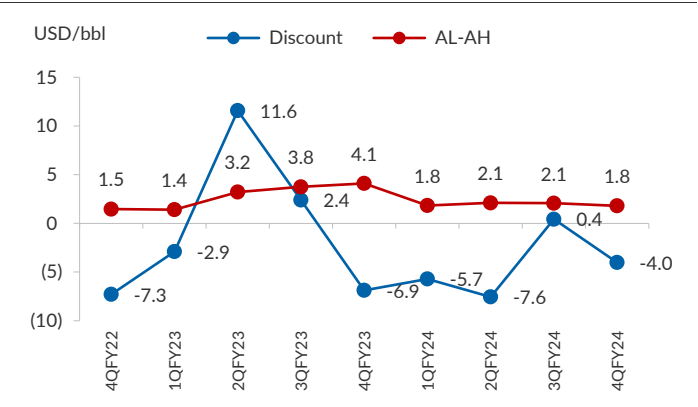
Source: PPAC, Company, YES Sec

Exhibit 6: Refining Opex



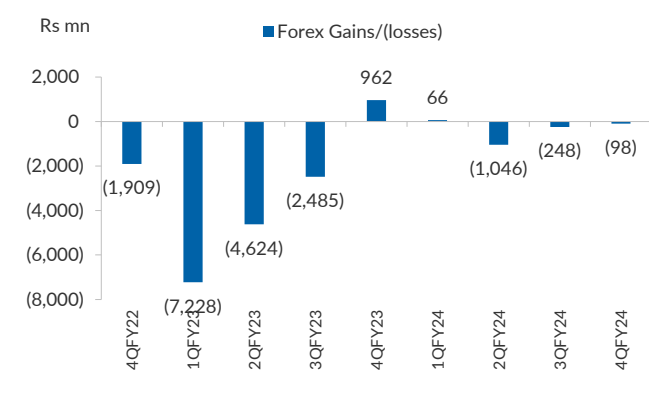
Source: Bloomberg, YES Sec

Exhibit 7: Premium to the benchmark and AL-AH difference



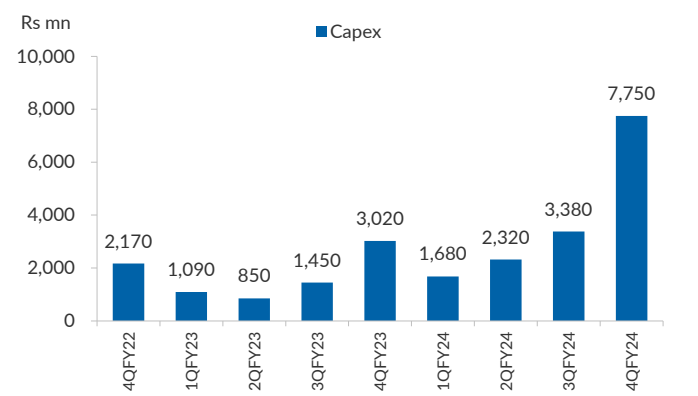
Source: Bloomberg, YES Sec

Exhibit 8: Forex gains / (losses)



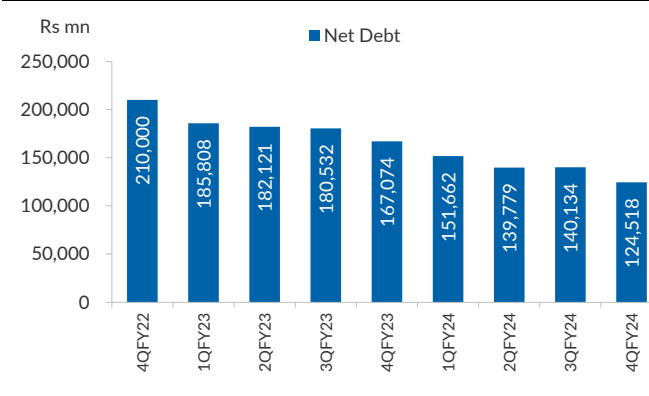
Source: Bloomberg, YES Sec

Exhibit 9: Capex



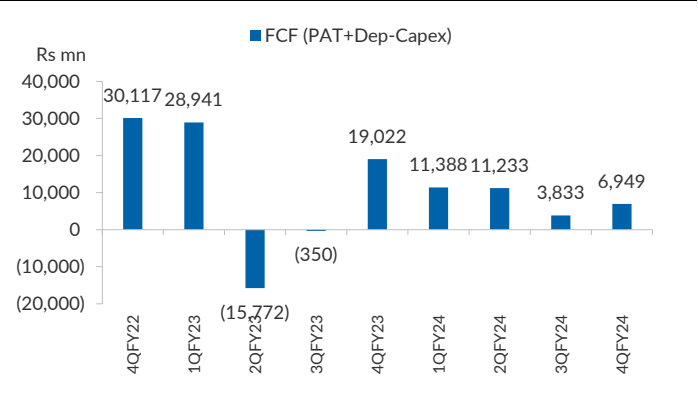
Source: Bloomberg, YES Sec

Exhibit 10: Debt



Source: Bloomberg, YES Sec

Exhibit 11: FCF changes



Source: Bloomberg, YES Sec

CONCALL HIGHLIGHTS

- **Throughput:** The company achieved its highest ever Q4 throughput at 4.6mmt, and second highest annual throughput of 16.59mmt despite a major planned shutdown during Q2FY24. Its targeting 17mmt of throughput for FY25 with no planned shutdowns.
- **Crude Sourcing:** The company during the quarter sourced Siberian Light from Russia, KGD6 crude supplied by Reliance Industries, and KG 98/2 crude sourced from ONGC's East Coast block during Feb and Mar 2024. Notably, the KG 98 crude potentially originated from the Kakinada region on the east coast of India.
- **Inventory gain:** There was an inventory gain of USD 1/bbl amounting to Rs 2.8bn during Q4FY24 and USD 0.58/bbl for FY24.
- **GRM:** USD 11.36/bbl during the quarter was healthy, while the management expects a lower GRM for Q1FY25 given the product cracks have eased.
- **Russian crude:** Of the total crude refined, 30-40% was Russian crude in line with India's industry souring. There were discounts which continue but are still lower adding some benefit to GRMs.
- **Net Debt:** In Q4FY24 reduced by Rs 15.6bn (FY24: 42.6bn) to Rs 124.5bn, Net worth improved to Rs 13.3bn, D/E ratio improved to 0.9. MRPL reduced debt by Rs 50bn, with a remaining term loan of NCD (interest 6-7.5%). The company plans to further reduce the debt by Rs 11.74bn in FY25, while the working capital would remain ~Rs 70-75bn.
- **Capex:** FY24 capex stood at ~Rs 15bn, which was spent on retail outlets, projects within refineries, existing projects, marketing terminal at Devangonhi which commercialized in Q4FY24, Bitumen blowing unit and retail outlet additions. It plans its routine capex at ~Rs 10bn/year in FY25/26. Currently conceptualizing new projects with an estimated total capex of Rs 80bn to be invested over the next five years. This translates to an additional Rs 20bn in capex spending each year on top of the routine maintenance expenditure. upcoming capex plan prioritizes infrastructure upgrades (including jetty improvements and pipeline modifications), power grid integration for reduced reliance on captive power, and petrochemical expansion to increase capacity from 10% to 12%, further details are expected to be revealed in Q3 FY25 post the board approval, so major capex cycle is expected to start from FY26 where annual capex would be over Rs 30bn.
- **Fuel & Loss:** For Q4FY24 the F&O was at 10.46%, marginally lower than previous period as some improvement came due to maintenance shutdown in Q2FY24.
- **OMPL:** It's aromatics unit, having paraxylene and benzene, currently paraxylene market facing headwinds, so they have shifted production slate to reformat mode for MS which has been profitable.
- **Retail outlets:** It has 103 operational retail outlets and planning add 1,000 outlets by FY27, initially focusing in southern India, post which it plans to expand in the West and Northern part of India. MRPL outlets doing better than competitors by ~20-30kl per outlet at 150kl/month. MRPL has diversified its product portfolio by entering the paint industry with the launch of Mineral Turpentine Oil (MTO) manufacturing and marketing starting in Q4FY24.
- **LNG consumption:** Current RLNG consumption is at 0.4mmscmd, with a peak potential of 0.65mmscmd. Previously, higher LNG prices had limited the consumption, however, with recent LNG price decline below USD 10/mmbtu, MRPL is actively seeking new contracts to ramp up LNG imports and utilize their full regasification capacity.
- **ATF:** 1st in Indian Refinery to be certified with AS9100D:2016, for production certification distribution of ATF. 80% of produce is exported, while remaining is sold through JV with Shell and to OMCs. JV being the marketing arm, through which supplying to 10 airports in South India.
- **Bio ATF:** The board has approved Bio-ATF project within its refinery. The feedstock is readily available, it includes vegetable oil and used cooking oil, positioning it for cost-effectiveness

and environmental benefit. Selection of the consultant for swift project execution is nearing finalization. However, the 2G Ethanol project (estimated capex Rs3.5bn) faces viability challenges, the management is confident of achieving it in the long-term potential due to premium pricing driven by international regulations, MRPL is currently evaluating options for further improvement.

- **Green Hydrogen:** The board has approved a green hydrogen project within its refinery, aligning with EOI document specifications with a capex of Rs 0.5bn.
- **Isobutyl benzene:** MRPL has developed its own patented technology for isobutyl benzene production. Currently it is in a pilot phase, the project utilizes toluene and polypropylene as a feedstock and aims to address the domestic demand of 10,000 to 15,000 tons per year.

VIEW & VALUATION

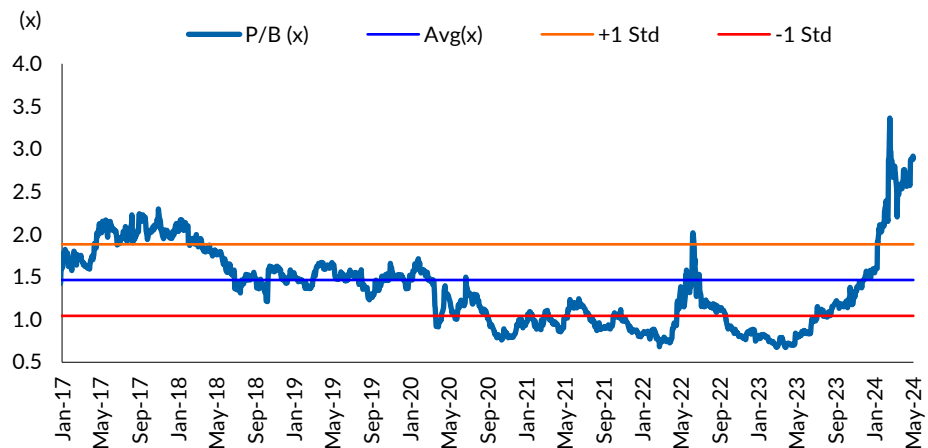
ADD with a TP of Rs 257/sh.

The GRM sensitivity for the stock is high: a \$1/bbl change in GRM changes EBITDA by Rs 9.9bn. BV/share for FY25e/26e: Rs 85.5/97.4; debt: equity at 0.7/0.5x FY25e/26e vs 0.9x in FY24. At CMP, stock trades at 10x/9.6x FY25e/26e EV/EBITDA & 2.7x/2.4x P/BV. We lower the rating to ADD from earlier BUY rating given the stock price rally, with maintaining a TP of Rs257, valuing stock at 10.7x FY26e EV/EBITDA. Risks: Lower GRM environment, change in crude prices and inventory losses, adverse government policy – subsidy-sharing.

Exhibit 12: Valuation table

EV/EBITDA	FY26E
Multiple	10.70
EBITDA	53,175
Debt	121,719
Cash	3,367
EV	568,969
Equity value	450,618
No of shares	1,753
VPS	257

Exhibit 13: P/BV (x) band, one-year-forward



FINANCIALS

Exhibit 14: Income statement

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Revenue	697,271	1,088,561	904,067	869,301	778,980
Total Expense	647,965	1,023,595	827,110	817,864	725,806
Operating Profit	49,306	64,966	76,957	51,437	53,175
Other Income	1,028	2,117	2,051	2,112	2,260
Depreciation	10,877	11,867	12,573	12,957	14,172
EBIT	39,456	55,216	66,435	40,593	41,263
Interest	12,073	12,853	11,138	8,033	8,155
Extraordinary Item	(300)	25	(83)	-	-
PBT	27,083	42,389	55,214	32,560	33,108
Tax	(2,469)	16,005	19,255	11,103	11,290
PAT	29,553	26,384	35,959	21,457	21,818
Adj. PAT	29,853	26,368	36,013	21,457	21,818
Eps	16.9	15.1	20.5	12.2	12.4

Exhibit 15: Balance sheet

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Equity capital	17,527	17,527	17,527	17,527	17,527
Reserves	54,437	80,820	114,988	133,673	152,105
Net worth	71,963	98,347	132,515	151,200	169,631
Debt	211,092	167,332	124,760	113,060	113,060
Deferred tax liab (net)	-	-	-	-	-
Capital Employed	283,055	265,678	257,275	264,260	282,691
Fixed assets	215,536	208,706	211,538	212,081	231,909
Investments	155	161	173	173	173
Net working capital	67,364	56,812	45,564	52,006	50,609
Inventories	104,869	67,766	83,060	78,652	73,058
Sundry debtors	43,277	44,694	38,601	41,019	39,514
Cash & Bank Balance	439	389	386	2,326	3,367
Other current assets	36,308	29,440	20,231	20,231	20,231
Sundry creditors	93,672	61,688	72,036	65,543	60,882
Other liabilities	23,856	23,790	24,679	24,679	24,679
Application of Funds	283,055	265,678	257,275	264,260	282,691

Exhibit 16: Cash flow statement

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
PBT	29,553	26,384	35,959	32,560	33,108
Depreciation & amortization	10,877	11,867	12,573	12,957	14,172
Interest expense	11,720	12,686	10,989	8,033	8,155
(Inc)/Dec in working capital	(1,901)	3,099	1,131	(4,502)	2,438
Tax paid	(2,630)	(7,658)	(9,502)	(11,103)	(11,290)
Less: Interest/Dividend Income Received	(47)	(218)	(146)	734	1,871
Other operating Cash Flow	(2,609)	17,484	19,445		
Cash flow from operating activities	44,963	63,644	70,450	38,678	48,454
Capital expenditure	(6,113)	(7,026)	(15,416)	(13,499)	(34,000)
Inc/(Dec) in investments	2	(3)	51	-	-
Add: Interest/Dividend Income Received	163	297	186	-	-
Cash flow from investing activities	(5,947)	(6,732)	(15,179)	(13,499)	(34,000)
Inc/(Dec) in share capital	15,546	6,139	1,858	-	-
Inc/(Dec) in debt	(46,727)	(51,649)	(44,922)	(11,700)	-
Dividend Paid	-	-	(1,753)	(3,505)	(5,258)
Others	(8,037)	(11,389)	(10,426)	(8,033)	(8,155)
Cash flow from financing activities	(39,218)	(56,899)	(55,242)	(23,239)	(13,413)
Net cash flow	(203)	13	29	1,940	1,041

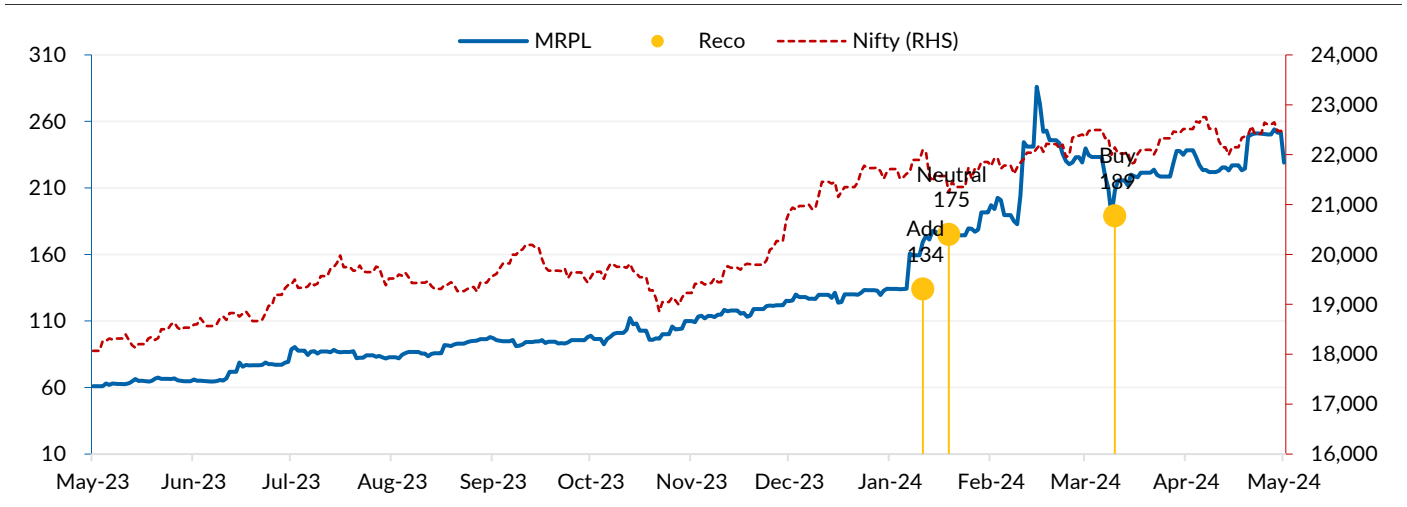
Exhibit 17: Du-pont analysis

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Tax burden (x)	1.1	0.6	0.7	0.7	0.7
Interest burden (x)	0.7	0.8	0.8	0.8	0.8
EBIT margin (x)	0.1	0.1	0.1	0.0	0.1
Asset turnover (x)	1.9	2.9	2.6	2.5	2.2
Financial leverage (x)	6.5	4.4	3.1	2.5	2.3
RoE (%)	51.7	31.0	31.2	15.1	13.6

Exhibit 18: Ratio analysis

Y/e 31 Mar	FY22	FY23	FY24	FY25E	FY26E
Growth matrix (%)					
Revenue growth	107.3	58.0	(19.2)	(1.1)	(11.3)
Op profit growth	2.1	106.0	(3.1)	3.0	7.0
EBIT growth	117.7	6.5	(13.3)	(27.9)	1.5
Net profit growth	(492.2)	(11.7)	36.6	(40.4)	1.7
Profitability ratios (%)					
OPM	7.1	6.0	8.5	5.9	6.8
EBIT margin	5.7	5.1	7.3	4.7	5.3
Net profit margin	4.2	2.4	4.0	2.5	2.8
RoCE	13.9	20.8	25.8	15.4	14.6
RoE	41.1	26.8	27.1	14.2	12.9
RoA	9.0	7.1	9.6	6.1	6.2
Per share ratios					
EPS	16.9	15.1	20.5	12.2	12.4
Dividend per share	-	-	3.0	2.0	3.0
Cash EPS	23.1	21.8	27.7	19.6	20.5
Book value per share	41.1	56.1	75.6	86.3	96.8
Valuation ratios					
P/E	2.5	3.5	11.2	18.7	18.4
P/CEPS	1.8	2.4	8.3	11.7	11.2
P/B	1.0	0.9	3.0	2.7	2.4
EV/EBIDTA	5.8	4.0	6.8	10.0	9.6
Payout (%)					
Dividend payout	-	-	14.6	16.3	24.1
Tax payout	(9.1)	37.8	34.9	34.1	34.1
Liquidity ratios					
Debtor days	14.4	12.9	14.4	14.0	14.0
Inventory days	51.6	31.9	34.5	36.0	36.0
Creditor days	39.2	28.7	30.6	30.0	30.0

Recommendation Tracker



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