

January 22, 2024

RESULT REPORT Q3 FY24 | Sector: Energy

Mangalore Refinery & Petrochemicals Ltd

Weaker Core GRMs impact the earnings

Our View

Mangalore Refinery Petrochemical's Q3 FY24 core performance was weak, with an EBITDA of Rs 11.6bn; \$5/bbl of reported GRM (our est. USD7.8) on narrowing Russian crude discounts. As per our calculations, the inventory losses could be at USD2.5/bbl. There was an impact of SAED of Rs 1.9bn (USD0.68/bbl) and RTP reduction of Rs 2.53bn (USD0.92/bbl) during the quarter which impacted the core performance. The company has declared an interim dividend of Rs1/shr after 4-years and fixed 2nd Feb'24 as the record date. We lower the rating to NEUTRAL from earlier ADD rating given the stock price rally, with a revised 12-mth TP of Rs173 (Rs151 earlier).

Result Highlights

- EBITDA/PAT was at Rs bn 11.6/3.9, better performance on YoY basis while on QoQ basis it was lower by 46%/63%. The EBITDA was lower than ours and consensus est. on weaker-than-expected core GRMs and SAED which stood at Rs 4.4bn (USD1.6/bbl). The reported GRM was USD5/bbl (USD17.1 the previous quarter, USD3.88 a year ago) while the Arab heavy-light difference was USD2.1/bbl (same as the prior quarter). The assumed core GRM at USD7.5/bbl (USD10.1 the quarter prior, USD7.76 a year back) was at a premium of USD21/bbl to the benchmark of USD5.4. The GRMs were weaker on minor changes to slate and lower Russian discounts. The cracks for major products: gasoil USD20.4/bbl, ATF USD23.5 and gasoline at USD7.2/bbl.
- Refinery throughput was 4.2mmt at ~117% utilization (85% the prior quarter, 119% a year ago). The opex stood lower at USD1.8/bbl, adjusting Rs2.2bn which has been capitalized during the quarter. Windfall impact: There was an impact of SAED of Rs 1.9bn (USD0.68/bbl) and RTP Rs 2.53bn (USD0.92/bbl).
- The debt stood at Rs140.1bn, down Rs40.4bn YoY supported by stronger FCF and reduction in working capital requirements. Capex was Rs3.4bn (Rs 7.4bn in 9MFY24), per PPAC and FY24 capex is targeted at Rs 10bn.
- 9MFY24 performance:** EBITDA at Rs 53.7bn (vs Rs 30.1bn previous period last year) while PAT at Rs 24.6bn (vs Rs 7.3bn previous period last year) and the reported GRM at USD9.99/bbl (vs USD8.22). The FCF is at Rs 26.5bn (vs Rs 4.3bn in the previous period last year).

Valuation

High GRM sensitivity: a \$1/bbl change in GRM changes EBITDA by Rs 9.9bn. BV/share for FY25e/26e: Rs 84/94; debt: equity at 0.7/0.5x FY25e/26e vs 1.7x in FY23. At CMP, stock trades at 7.9x/9.0x FY25e/26e EV/EBITDA & 2.0x/1.8x P/BV. We lower the rating to NEUTRAL from earlier ADD rating given the stock price rally, with a revised 12-mth TP of Rs173 (Rs151 earlier), valuing stock at 1.8x FY26e P/BV.

Exhibit 1: Actual vs estimate

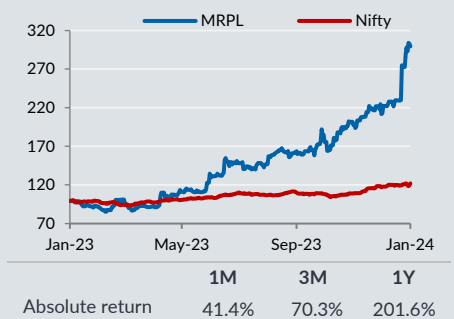
Rs mn	Actual	Estimate		% Variation		Remarks
		YES Sec	Consensus	YES Sec	Consensus	
Sales	246,769	252,520	233,900	-2.28%	5.50%	
EBITDA	11,603	14,232	15,150	-18.47%	-23.41%	Below estimates on weaker GRMs
EBITDA Margin (%)	4.70%	5.64%	6.48%	-93bps	-178bps	
Adjusted PAT	3,879	5,758	7,300	-32.63%	-46.86%	

Reco	: NEUTRAL
CMP	: Rs 175
Target Price	: Rs 173
Potential Return	: -1%

Stock data (as on Jan 20, 2024)

Nifty	21,572
52 Week h/l (Rs)	186 / 49
Market cap (Rs/USD mn)	310210 / 3746
Outstanding Shares (mn)	1,753
6m Avg t/o (Rs mn):	878
Div yield (%):	-
Bloomberg code:	MRPL IN
NSE code:	MRPL

Stock performance



Shareholding pattern (As of Dec '23 end)

Promoter	88.6%
FII+DII	4.1%
Others	7.3%

Δ in stance

(1-Yr)	New	Old
Rating	NEUTRAL	ADD
Target Price	173	151

Δ in estimates

(1-Yr)	FY24e	FY25e	FY26e
EPS (New)	17.4	13.4	9.9
EPS (Old)	15.0	13.0	9.6
% Change	16.0	3.0	2.8

Financial Summary

(Rs bn)	FY24E	FY25E	FY26E
Revenue	798.0	814.7	739.9
YoY Growth	(28.2)	3.8	(8.6)
EBIDTA	63.5	51.9	42.7
OPM %	8.0	6.4	5.8
PAT	30.5	23.5	17.3
YoY Growth	15.7	(23.0)	(26.3)
ROE	24.0	15.6	10.3
EPS	17.4	13.4	9.9
P/E	10.1	13.1	17.7
BV	84.8	100.2	112.4
EV/EBITDA	4.0	4.8	5.7

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Exhibit 2: Earnings snapshot

Particulars (Rs mn)	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	YoY (%)	QoQ (%)	9M FY23	9M FY24	YoY (%)
Revenue	265,574	254,009	211,731	192,297	246,769	(7.1)	28.3	834,552	650,796	(22.0)
Expenditure	262,701	219,108	191,048	170,914	235,165	(10.5)	37.6	804,487	597,128	(25.8)
-Raw Material	254,538	212,321	183,945	160,308	232,077	(8.8)	44.8	774,370	576,329	(25.6)
-Staff Cost	1,527	2,481	1,494	1,597	1,626	6.5	1.8	4,497	4,717	4.9
- Other Expenses	6,636	4,305	5,609	9,010	1,463	(78.0)	(83.8)	25,621	16,081	(37.2)
Operating Profit	2,874	34,902	20,683	21,382	11,603	303.8	(45.7)	30,065	53,669	78.5
OPM(%)	1.1	13.7	9.8	11.1	4.7	362 bps	(57.7)	3.6	8.2	464 bps
Other Income	573	861	518	745	396	(30.9)	(46.8)	1,257	1,658	31.9
Depreciation	2,980	2,962	2,940	2,960	3,343	12.2	12.9	8,905	9,243	3.8
Interest	3,377	3,300	2,673	3,112	2,736	(19.0)	(12.1)	9,553	8,521	(10.8)
Excpnl Loss/(Profit)	(25)	-	-	-	-	-	-	(25)	-	-
PBT	(2,935)	29,500	15,588	16,055	5,920	(301.7)	(63.1)	12,839	37,563	192.6
Tax	(1,005)	10,421	5,461	5,462	2,041	(303.0)	(62.6)	5,584	12,964	132.1
PAT	(1,930)	19,080	10,127	10,593	3,879	(301.0)	(63.4)	7,254	24,599	239.1
Adj PAT	(1,905)	19,080	10,127	10,593	3,879	(303.7)	(63.4)	7,279	24,599	237.9

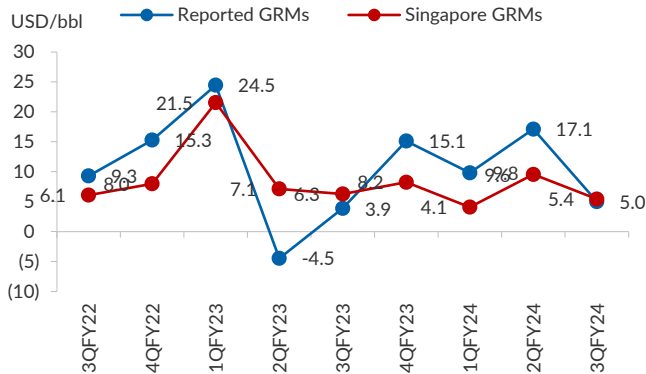
Exhibit 3: Operating highlights

Particulars	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	YoY (%)	QoQ (%)	9M FY23	9M FY24	YoY (%)
Volumes										
Throughput	4.5	4.4	4.4	3.2	4.4	(1.3)	37.7	12.7	12.0	(5.8)
Utilisation %	118.5	119.2	116.6	84.9	116.9	(1.3)	37.7	112.6	106.1	(5.8)
GRMs										
Reported GRMs	3.9	15.1	9.8	17.1	5.0	28.9	(70.8)	8.2	10.0	21.6
Inv gains/ (loss)	(3.9)	(1.7)	(1.6)	7.0	(2.5)	(35.6)	(135.7)	(1.6)	0.4	(122.5)
Core GRMs	7.8	16.8	11.4	10.1	7.5	(3.4)	(25.8)	9.9	9.6	(2.4)
Singapore GRMs	6.3	8.2	4.1	9.6	5.4	(13.5)	(43.2)	11.7	6.0	(48.3)
Export duty - SAED										
Rs mn	5,290	1,810	20	910	1,880	(64.5)	106.6	15,550	2,810	(81.9)
US\$/bbl	1.9	0.7	0.0	0.5	0.7	(64.4)	49.0	2.0	0.4	(81.4)
Export duty - RTP Reduction										
Rs mn	15,170	6,990	170	3,720	2,530	(83.3)	(32.0)	26,800	6,420	(76.0)
US\$/bbl	5.5	2.6	0.1	1.9	0.9	(83.3)	(51.0)	3.5	0.9	(75.1)
Rs mn										
Standalone Debt (Incl. OMPL)	180,532	167,074	151,662	139,779	140,134	(22.4)	0.3	182,121	139,779	(23.2)
Capex	1,450	3,020	1,680	2,320	3,380	133.1	45.7	3,390	7,380	117.7
Forex Gains/(losses)	(2,485)	962	66	(1,046)	(248)	(90.0)	(76.3)	(14,337)	(1,228)	(91.4)
FCF (PAT+Dep-Capex)	(350)	19,022	11,388	11,233	3,842	(1,198.2)	(65.8)	12,819	26,462	106.4

Key result highlights:

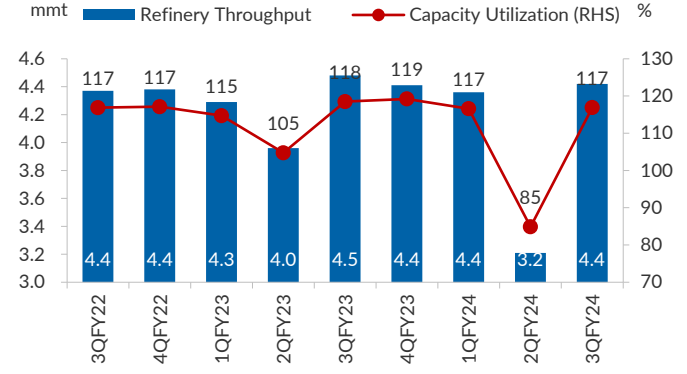
- **EBITDA/PAT** at Rs bn 11.6/3.9, better performance on y/y basis while on q/q basis it was lower by 46%/63%. The EBITDA was lower than ours and consensus est. on weaker-than-expected core GRMs and SAED which stood at Rs 4.4bn (USD1.6/bbl).
- MRPL's Q3FY24 **reported GRM** was USD5/bbl (USD17.1 the previous quarter, USD3.88 a year ago) while the Arab heavy-light difference was USD2.1/bbl (same as the prior quarter). The GRM was lower than our expectations, on weaker core GRMs and SAED.
- The assumed **core GRM** at USD7.5/bbl (USD10.1 the quarter prior, USD7.76 a year back) was at a premium of USD21/bbl to the benchmark of USD5.4. The GRMs were weaker on minor changes to slate and lower Russian discounts. The cracks for major products: gasoil USD20.4/bbl, ATF USD23.5 and gasoline at USD7.2.
- As per our assumptions, the **Inventory loss** could be at USD2.5/bbl (Rs6.9bn) vs a gain of USD7 the previous quarter and a loss of USD3.9 a year ago.
- **Refinery throughput** was 4.2mmt at ~117% utilisation (85% the prior quarter, 119% a year ago).
- **Windfall impact:** There was an impact of SAED of Rs 1.9bn (USD0.68/bbl) and RTP Rs 2.53bn (USD0.92/bbl) during the quarter.
- The **opex** stood lower at USD1.8/bbl, adjusting Rs2.2bn which has been capitalized during the quarter.
- The Rs 248mn **forex loss** marginally impacted the profitability.
- The **debt** stood at Rs140.1bn, flat QoQ but down Rs40.4bn on YoY basis supported by stronger FCF and reduction in working capital requirements.
- **Capex** was Rs3.4bn (Rs 7.4bn in 9MFY24), per PPAC and FY24 capex is targeted at Rs 10bn (major investment in adding 70 Retail outlets (ROs), projects within refineries, existing projects, marketing terminal at Devangonhi which is expected to commercialize by Q4FY24 and Bitumen blowing unit).
- **Crude sourcing mix.** Russia at 35%, Saudi 25%, Iraq 15%, domestic 20% others 5%. The Russian crude discounts were lower as the system for booking of crude price changed from delivery to the port to Russian port exit. It takes ~30days for crude to reach Indian port when left Russian port.
- In terms of the **slate mix**, the contribution of diesel to slate was ~44%, gasoline ~15%, ATF ~10%, LPG ~7% and fuel & loss 11.4%.
- **9MFY24 performance:** EBITDA at Rs 53.7bn (vs Rs 30.1bn previous period last year) while PAT at Rs 24.6bn (vs Rs 7.3bn previous period last year) and the reported GRM at USD9.99/bbl (vs USD8.22). The FCF is at Rs 26.5bn (vs Rs 4.3bn in the previous period last year).
- The company has declared an **interim dividend** of Rs1/shr after 4-years and fixed 2nd Feb'24 as the record date.

Exhibit 4: GRMs



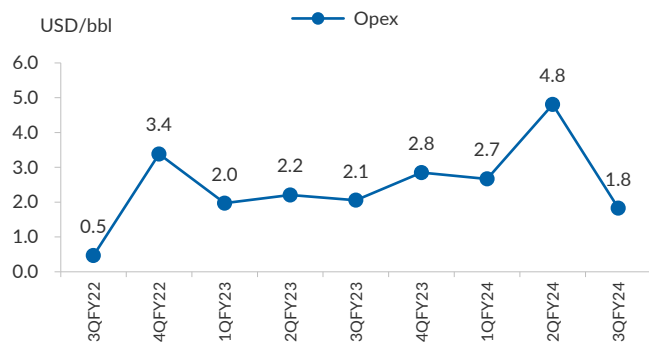
Source: PPAC, Company, YES Sec

Exhibit 5: Refining throughput, capacity utilisation



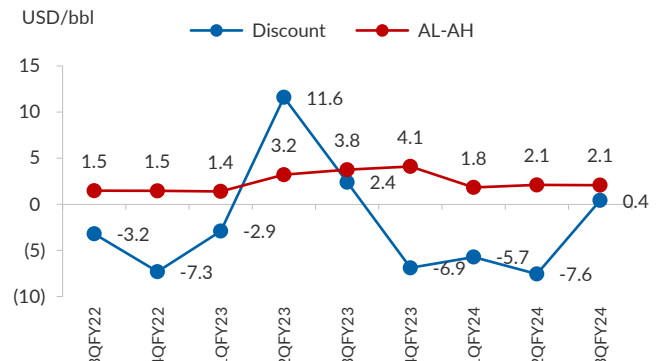
Source: PPAC, Company, YES Sec

Exhibit 6: Refining Opex



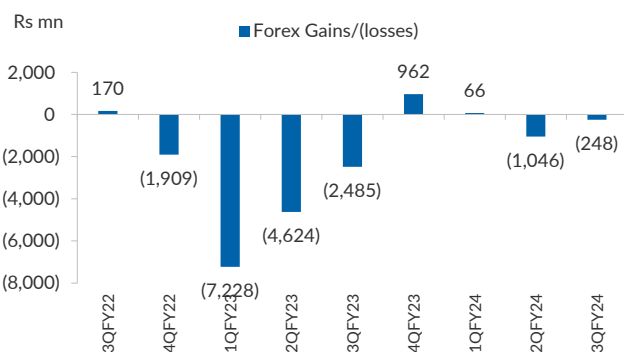
Source: Bloomberg, YES Sec

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



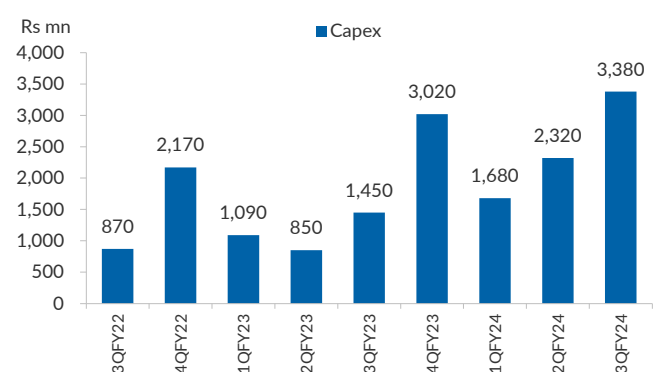
Source: Bloomberg, YES Sec

Exhibit 8: Forex gains / (losses)



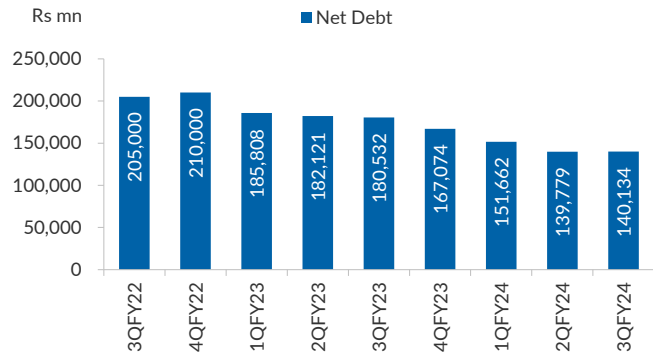
Source: Bloomberg, YES Sec

Exhibit 9: Capex



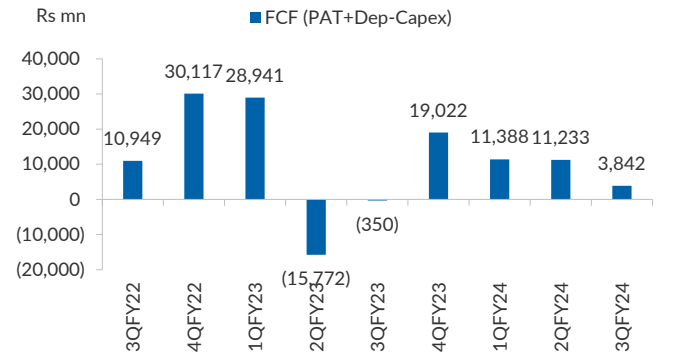
Source: Bloomberg, YES Sec

Exhibit 10: Net debt



Source: Bloomberg, YES Sec

Exhibit 11: FCF changes



Source: Bloomberg, YES Sec

VIEW & VALUATION

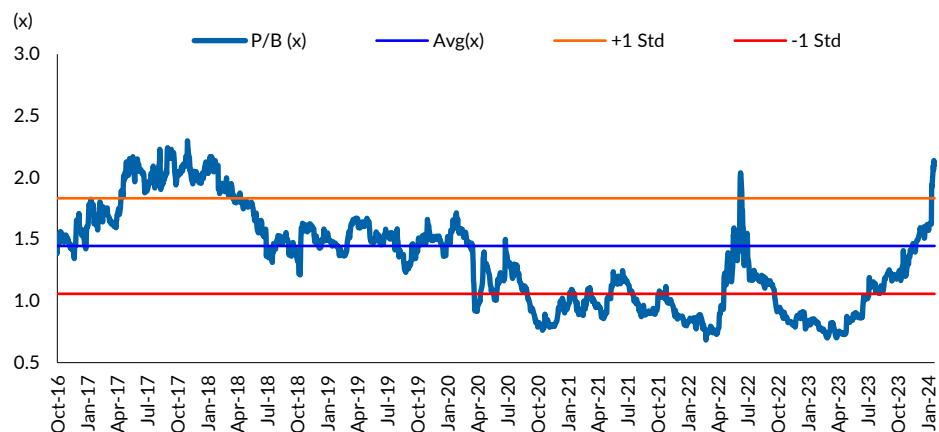
NEUTRAL with a TP of Rs 173/sh.

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 84/94; debt: equity at 0.7/0.5x FY25e/26e vs 1.7x in FY23. . At CMP, stock trades at 7.9x/9.0x FY25e/26e EV/EBITDA & 2.0x/1.8x P/BV. We lower the rating to NEUTRAL from earlier ADD rating given the stock price rally, with a revised 12-mth TP of Rs173 (Rs151 earlier), valuing stock at 1.8x FY26e P/BV. Risks: Lower GRM environment, change in crude prices and inventory losses, adverse government policy – subsidy-sharing.

Exhibit 12: Valuation table

EV/EBITDA	FY26E
Multiple	9.1
EBITDA	42,741
Debt	115,991
Cash	31,038
EV	388,940
Equity value	303,988
No of shares	1,753
VPS	173
P/BV	
BV	96.2
Multiple	1.80
VPS	173

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



FINANCIALS

Exhibit 14: Income statement

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E	FY26E
Revenue	319,590	697,271	1,088,561	797,998	814,691	739,899
Total Expense	312,623	647,965	1,023,595	734,509	762,778	697,159
Operating Profit	6,968	49,306	64,966	63,489	51,913	42,741
Other Income	1,006	1,028	2,117	2,160	2,203	2,247
Depreciation	11,580	10,877	11,867	11,224	11,654	12,024
EBIT	(3,607)	39,456	55,216	54,424	42,462	32,963
Interest	5,545	12,073	12,853	8,141	6,843	6,727
Extraordinary Item	-	(300)	25	-	-	-
PBT	(9,151)	27,083	42,389	46,283	35,619	26,236
Tax	(1,540)	(2,469)	16,005	15,782	12,146	8,946
PAT	(7,612)	29,553	26,384	30,500	23,473	17,289
Adj. PAT	(7,612)	29,853	26,368	30,500	23,473	17,289
Eps	(4.3)	16.9	15.1	17.4	13.4	9.9

Exhibit 15: Balance sheet

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E	FY26E
Equity capital	17,527	17,527	17,527	17,527	17,527	17,527
Reserves	24,854	54,437	80,820	109,732	132,765	151,061
Net worth	42,381	71,963	98,347	127,259	150,292	168,588
Debt	238,552	211,092	167,332	129,332	107,332	107,332
Deferred tax liab (net)	-	-	-	-	-	-
Capital Employed	280,933	283,055	265,678	256,591	257,623	275,919
Fixed assets	219,395	215,536	208,706	207,481	204,827	201,803
Investments	155	155	161	161	161	161
Net working capital	61,383	67,364	56,812	48,948	52,635	73,955
Inventories	71,028	104,869	67,766	80,852	69,659	67,826
Sundry debtors	24,507	43,277	44,694	43,052	38,660	37,268
Cash & Bank Balance	521	439	389	246	8,325	31,038
Other current assets	31,589	36,308	29,440	29,440	29,440	29,440
Sundry creditors	40,031	93,672	61,688	80,852	69,659	67,826
Other liabilities	26,230	23,856	23,790	23,790	23,790	23,790
Application of Funds	280,933	283,055	265,678	256,591	257,623	275,919

Exhibit 16: Cash flow statement

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E	FY26E
PBT	(7,612)	29,553	26,384	46,283	35,619	26,236
Depreciation & amortization	11,580	10,877	11,867	11,224	11,654	12,024
Interest expense	5,364	11,720	12,686	8,141	6,843	6,727
(Inc)/Dec in working capital	(34,257)	(1,901)	3,099	7,720	4,392	1,393
Tax paid	108	(2,630)	(7,658)	(15,782)	(12,146)	(8,946)
Less: Interest/Dividend Income Received	(42)	(47)	(218)	165	734	1,871
Other operating Cash Flow	(3,324)	(2,609)	17,484			
Cash flow from operating activities	(28,182)	44,963	63,644	57,751	47,096	39,305
Capital expenditure	(8,977)	(6,113)	(7,026)	(10,000)	(9,000)	(9,000)
Inc/(Dec) in investments	(12,169)	2	(3)	-	-	-
Add: Interest/Dividend Income Received	132	163	297	-	-	-
Cash flow from investing activities	(21,014)	(5,947)	(6,732)	(10,000)	(9,000)	(9,000)
Inc/(Dec) in share capital	75,144	15,546	6,139	-	-	-
Inc/(Dec) in debt	(18,660)	(46,727)	(51,649)	(38,000)	(22,000)	-
Dividend Paid	-	-	-	(1,753)	(1,174)	(864)
Others	(7,047)	(8,037)	(11,389)	(8,141)	(6,843)	(6,727)
Cash flow from financing activities	49,436	(39,218)	(56,899)	(47,894)	(30,017)	(7,592)
Net cash flow	240	(203)	13	(143)	8,079	22,713

Exhibit 17: Du-pont analysis

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E	FY26E
Tax burden (x)	0.8	1.1	0.6	0.7	0.7	0.7
Interest burden (x)	2.5	0.7	0.8	0.9	0.8	0.8
EBIT margin (x)	(0.0)	0.1	0.1	0.1	0.1	0.0
Asset turnover (x)	1.0	1.9	2.9	2.2	2.3	2.1
Financial leverage (x)	5.6	6.5	4.4	3.2	2.6	2.3
RoE (%)	(12.9)	51.7	31.0	27.0	16.9	10.8

Exhibit 18: Ratio analysis

Y/e 31 Mar	FY21	FY22	FY23	FY24E	FY25E	FY26E
Growth matrix (%)						
Revenue growth	(41.6)	107.3	58.0	(28.2)	3.8	(8.6)
Op profit growth	(4.2)	2.1	106.0	2.0	2.0	2.0
EBIT growth	(25.3)	117.7	6.5	(36.7)	(15.9)	(1.7)
Net profit growth	(71.9)	(492.2)	(11.7)	15.7	(23.0)	(26.3)
Profitability ratios (%)						
OPM	2.2	7.1	6.0	8.0	6.4	5.8
EBIT margin	(1.1)	5.7	5.1	6.8	5.2	4.5
Net profit margin	(2.4)	4.2	2.4	3.8	2.9	2.3
RoCE	(1.3)	13.9	20.8	21.2	16.5	11.9
RoE	(18.0)	41.1	26.8	24.0	15.6	10.3
RoA	(2.7)	9.0	7.1	8.1	6.6	4.9
Per share ratios						
EPS	(4.3)	16.9	15.1	17.4	13.4	9.9
Dividend per share	-	-	-	1.0	0.7	0.5
Cash EPS	2.6	27.0	25.5	27.8	23.4	19.5
Book value per share	28.3	48.0	65.6	84.8	100.2	112.4
Valuation ratios						
P/E	(8.9)	2.5	3.5	10.1	13.1	17.7
P/CEPS	14.7	1.5	2.1	6.3	7.5	9.0
P/B	1.4	0.9	0.8	2.1	1.7	1.6
EV/EBIDTA	40.2	5.7	4.1	4.0	4.8	5.7
Payout (%)						
Dividend payout	-	-	-	5.7	5.0	5.0
Tax payout	16.8	(9.1)	37.8	34.1	34.1	34.1
Liquidity ratios						
Debtor days	17.5	14.4	12.9	14.0	14.0	14.0
Inventory days	86.3	51.6	31.9	35.0	35.0	35.0
Creditor days	50.4	39.2	28.7	35.0	35.0	35.0

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