

FEBRUARY 26, 2019

	25-Feb	% Chg		
		1 Day	1 Mth	3 Mths
Indian Indices				
SENSEX Index	36,213	1.0	0.5	3.5
NIFTY Index	10,880	0.8	0.9	3.4
NSEBANK Index	27,159	1.1	0.2	4.5
NIFTY 500 Index	8,984	0.7	(0.1)	1.2
CNXMcap Index	16,602	0.4	(2.4)	(4.3)
BSESMCAP Index	13,618	0.7	(2.7)	(5.1)
World Indices				
Dow Jones	26,092	0.2	5.5	5.9
Nasdaq	7,554	0.4	5.4	6.7
FTSE	7,184	0.1	5.5	2.1
NIKKEI	21,528	0.5	3.4	(1.5)
Hangseng	21,528	0.5	3.4	(1.5)
Shanghai	28,959	0.5	4.3	9.0

Value traded (Rs cr)	25-Feb	% Chg Day
Cash BSE	2,025	(27.5)
Cash NSE	33,086	(15.0)
Derivatives	624,374	34.5

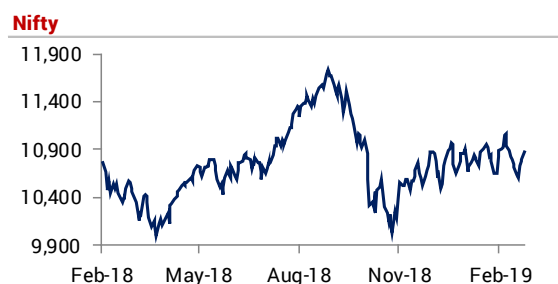
Net inflows (Rs cr)	22-Feb	MTD	YTD
FII	12,132	11,416	10,911
Mutual Fund	1,600	10,744	17,904

Nifty Gainers & Losers	Price	Chg	Vol
25-Feb	(Rs)	(%)	(mn)
Gainers			
Yes Bank Ltd	229	3.2	47.8
TCS	1,985	3.1	2.9
Infosys Ltd	755	2.7	6.6
Losers			
Adani Ports	325	(8.4)	21.8
Bharti Infra	304	(3.1)	3.5
BPCL	336	(2.4)	7.0

Advances / Declines (BSE)					
25-Feb	A	B	T	Total	% total
Advances	247	651	51	949	100
Declines	179	370	46	595	63
Unchanged	3	26	15	44	5

Commodity	25-Feb	% Chg		
		1 Day	1 Mth	3 Mths
Crude (US\$/BBL)	64.6	(0.2)	9.0	6.9
Gold (US\$/OZ)	1,327.6	(0.0)	2.0	8.8
Silver (US\$/OZ)	15.9	(0.1)	1.1	11.9

Debt / forex market	25-Feb	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	7.4	7.4	7.3	7.7
Re/US\$	71.0	71.1	71.2	70.9



Source: Bloomberg

News Highlights

- ▶ Private weather forecasting agency Skymet said the southwest monsoon this year had a 50 per cent chance of being "normal". (BS)
- ▶ The Securities and Exchange Board of India (Sebi) has initiated criminal proceedings against about 300 brokers for their alleged role in the Rs55 bn National Spot Exchange Ltd (NSEL) scam in 2013. (ET)
- ▶ The Reserve Bank of India (RBI) has proposed inserting a clause in compensation packages of private bank chief executive officers (CEO) that would allow for a penalty if the bank concerned underreports bad debt or provision beyond the central bank's tolerance. (BS)
- ▶ Homegrown private equity fund True North Capital is set to purchase a 51% stake owned by Max Group in Max Bupa Health Insurance Co for Rs11 bn, said two persons with knowledge of the plan. (ET)
- ▶ **Adani Enterprises** is the highest bidder for airports in Ahmedabad, Jaipur, Mangaluru, Thiruvananthapuram, and Lucknow, according to industry sources aware of the development. The government invited bids for these from private players, to manage them for 50 years. (BS)
- ▶ **Coal India's** e-auction prices rose about 53% in the December quarter, when it offered half the quantity it did a year ago after diverting supplies to power plants. (ET)
- ▶ **Fortis Healthcare** has said it has asked markets regulator Sebi to initiate legal proceedings, including the arrest of its former promoters Singh borthers, to recover Rs4.72 bn from them and related entities. (ET)
- ▶ **Thermax** said that it has inked a pact with its joint venture partners Mutares Holding-24 and Balcke-Duerr to acquire their stake in Thermax SPX Energy Technologies, which would become its 100% subsidiary after the transaction. (ET)
- ▶ **Lupin** received U.S. FDA approval for Methylprednisolone tablet. The company will be able to market generic version of Pharmacia and Upjhon Company's Medrol Tablets. (BQ)
- ▶ **Thomas Cook** India Group said it has acquired 51% stake in imaging solutions and services firm Digiphoto Entertainment Imaging (DEI), at an enterprise value of \$40.6 mn (around Rs2.89 bn). (ET)
- ▶ The Income Tax Department has discovered some irregularities in transactions between **Jet Airways** and its Dubai-based group companies and believes that the airline may have done this to evade taxes worth around Rs6.50 bn. (ET)
- ▶ The National Company Law Appellate Tribunal (NCLAT) ruled that accounts of **Infrastructure Leasing & Financial Services (IL&FS)** and its subsidiaries could not be classified as non-performing assets (NPAs) without approval from the tribunal. (BS)

What's Inside

- ▶ **Company Update: MRPL**

Source: ET = Economic Times, BS = Business Standard, FE = Financial Express, IE = Indian Express, BL = Business Line, BQ = BloombergQuint, Tol = Times of India, BSE = Bombay Stock Exchange, MC = Moneycontrol

Company Update

Stock Details

Market cap (Rs mn)	:	183890
52-wk Hi/Lo (Rs)	:	124 / 60
Face Value (Rs)	:	10
3M Avg. daily vol (Nos)	:	1,091,034
Shares o/s (mn)	:	1753

Source: Bloomberg

Financial Summary

Y/E Mar (Rs mn)	FY18	FY19E	FY20E
Revenue	490,550	623,163	628,874
Growth (%)	12.1	27.0	0.9
EBITDA	45,020	12,854	39,450
EBITDA margin (%)	9.2	2.1	6.3
PAT	19,926	(2,735)	16,435
EPS	11.4	(1.6)	9.4
EPS Growth (%)	(42.6)	NM	NM
BV (Rs/share)	58.4	63.1	69.4
Dividend/share (Rs)	3.0	0.0	2.6
ROE (%)	17.7	(2.5)	13.8
ROCE (%)	12.9	2.6	11.1
P/E (x)	5.6	NM	6.8
EV/EBITDA (x)	4.7	16.4	5.0
P/BV (x)	1.1	1.0	0.9

Source: Company, Kotak Securities – PCG; NM: Not Meaningful

Shareholding Pattern (%)

(%)	Dec-18	Jun-18	Mar-18
Promoters	88.6	88.6	88.6
FII	1.7	1.6	2.8
DII	3.2	3.2	1.9
Others	6.5	6.6	6.7

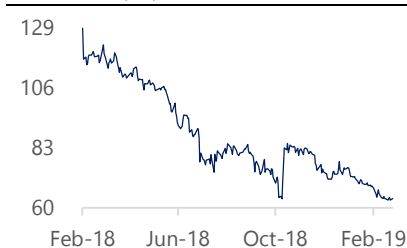
Source: Bloomberg, BSE

Price Performance (%)

(%)	1M	3M	6M
MRPL	(7.1)	(14.4)	(22.9)
Nifty	0.9	3.4	(5.9)

Source: Bloomberg

Price chart (Rs)



Source: Bloomberg

MRPL

PRICE Rs.64

TARGET Rs.75

BUY

Key near term headwinds - Weak GRMs and rupee appreciation

Notably, Benchmark Singapore refining margins declined for the third straight quarter in Q4FY19 (till date) led by significant decline in Petrol spread, Diesel spread, Jet spread, increased losses on Fuel oil and lower Naphtha spread. Additionally, rupee has appreciated ~2% qoq to Rs. 70.9/US\$ which further add woes to all the refining companies like MRPL.

The key earnings drivers for refining industry indicates weakness for all the refining companies in this quarter.

- ❑ **Margin under pressure:** Benchmark Singapore refining margin has declined ~33% qoq to US\$ 3.6/bbl (average) in Q4FY19 (till date) and is currently trading around US\$ 3.99/bbl due to global product supply-demand mismatch. Surprisingly, Petrol spread has turned negative to US\$ 2.0/bbl in Q4FY19 (till date). In 9MFY19, MRPL's average GRMs stood at US\$ 3.72/bbl. We expect the company to report significantly lower GRMs in Q4FY19 unless spreads improves meaningfully.
 - ❑ MRPL is implementing phase III expansion plans, upgrading its refinery to meet BS VI norms and also forward integrating by setting up a polypropylene unit. In general, Indian refiners will have to shut gasoil and gasoline making units at their plants for 15 to 45 days to churn out Euro VI compliant fuels from January 2020. This will impact the crude through put in FY20, we opine.
 - ❑ In the medium to long term, the key factors to watch are GRMs, rupee movement against US dollar, capacity expansion & up-gradation and petroleum product demand.
- ### Valuation & outlook
- ❑ We have revised our earnings lower to reflect weak GRMs, rupee appreciation and inventory losses. However, lower operating cost, and lower working capital requirement resulting in lower interest cost which will partly mitigate the negative impact. Hence, we now expect MRPL to report an EPS of Rs.-1.6/share in FY19E (earlier Rs.-0.7) and an EPS of Rs.9.4/share in FY20E (earlier Rs.10).
 - ❑ At current price, the stock is trading at 6.8x P/E and 0.9x P/B multiples on FY20E earnings. We maintain BUY on MRPL with a revised price target of Rs.75 (earlier Rs.92), valuing it at 5.5x FY20E EV/EBITDA.
 - ❑ Going ahead, we expect MRPL's profitability to improve on account of i). Improved product mix, ii). Better refining margins iii). Economies of scale, iv). Forward integration - Polypropylene plant and v). Various tax benefits.

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Key Developments

Refining margin is under pressure

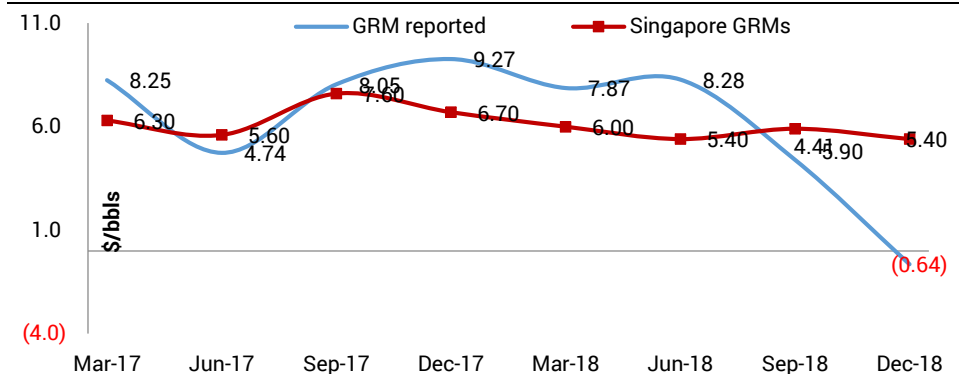
- Benchmark Singapore refining margin has declined ~33% qoq to US\$ 3.6/bbl (average till date) in Q4FY19 and is currently trading around US\$ 3.99/bbl due to weak global product demand. We expect the company to report significantly lower GRMs in Q4FY19.

Singapore Refining margin (US\$/bbl) is trading significantly lower than average



Source: Bloomberg

MRPL's GRMs v/s Benchmark Singapore GRMs (US\$/bbl)



Source: Company. Note: MRPL's reported GRMs includes inventory gain/loss.

- Brent crude oil price has corrected ~10% to US\$ 62/bbl in Q4FY19 (till date). We expect MRPL to report inventory losses which will further put pressure on earnings.

Average product spread with Dubai crude (\$/bbbls)

	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	QoQ Chg	% Chg
INR/USD	64.3	67.1	70.1	72.1	70.9	(1.1)	(1.6)
Diesel	14.7	15.1	15.3	18.1	12.4	(5.8)	(31.9)
Jet/SKO	13.7	12.9	12.3	16.2	11.6	(4.5)	(27.9)
Petrol	9.6	8.8	8.3	4.1	(2.0)	(6.1)	
Naphtha	15.5	15.8	17.2	10.7	7.0	(3.7)	(34.3)
FO	(13.8)	(15.4)	(12.9)	(6.8)	(8.6)		
Dubai Crude price	64.1	71.7	73.9	67.4	61.1	(6.3)	(9.4)
Brent crude oil	67.2	75.0	75.8	68.6	62.0	(6.6)	(9.6)
Singapore GRM	6.0	5.4	5.9	5.4	3.6	(1.8)	(33.2)
Arab light-heavy	2.9	3.1	2.3	2.2	1.4	(0.8)	(36.8)
SPOT LNG (\$/mmbtu)	9.1	8.5	10.4	9.5	7.2	(2.3)	(24.5)
FO (\$/bbbls)	50.2	56.3	60.9	60.8	52.3	(8.5)	(13.9)
Naphtha	79.6	87.6	91.1	78.1	68.1	(10.0)	(12.8)

Source: Bloomberg

Strong rupee hurts refining company's earnings.

Diesel spread corrected 32% impacting both simple and complex refineries.

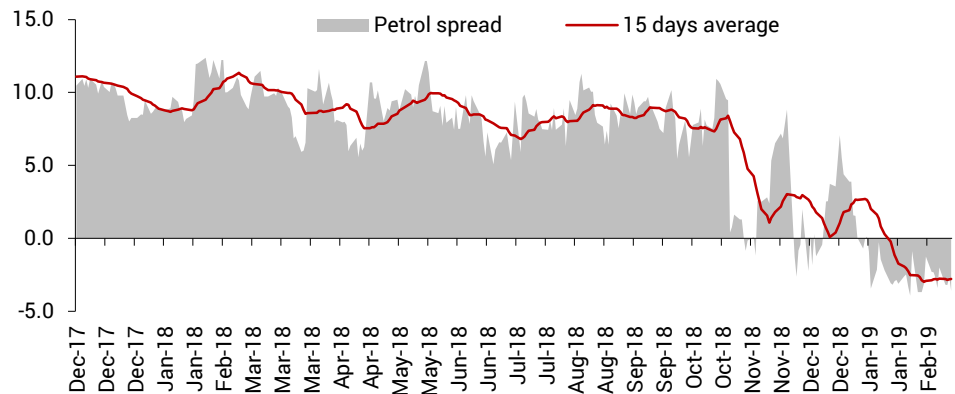
Petrol spread declining from last 5 quarters.

With the rise in US crude oil production (light and low in sulphur), the supply of gasoline has jumped meaningfully resulting in negative spreads

Gasoline cracks corrected significantly

- Surprisingly, Petrol spread has turned negative to US\$ 2.0/bbl in Q4FY19 (till date).

Gasoline spread turned negative (\$/bbl)



Source: Bloomberg

- New expansion plans in place – Growth is a process:** MRPL has set-up the next milestone and is planning to enhance its refining capacity to 25 mmtpa (19% higher than targeted) as against an earlier target of 21 mmtpa and current capacity of 15.5 mmtpa. Additionally, the company is planning to scale up its petrochemical capacity to boost its margins. The Company will invest Rs.110 bn in this expansion. We like the sharpened focus of the company on the growth strategy. The expansion is seen as a major margin driver as it will help the company to process cheaper, heavier crudes into high-value products like diesel, liquefied petroleum gas and propylene.
- MRPL is venturing into RLNG business:** MRPL has signed a memorandum of understanding (MOU) with new Mangalore Port Trust to study the feasibility of setting up an LNG re-gasification terminal at Mangalore. We believe this is at a preliminary stage and will have a long gestation period. However, if materializes then it will help MRPL to lower its refinery operating cost by replacing costlier liquid fuel with cheaper LNG.
- Re-commencing retail outlets-** The Company has commissioned COCO (company owned and company operated) retail outlet in Mangalore in Feb'18 and also commissioned its first ever dealer owned dealer operated retail outlet at Mandya in March'18. In Karnataka, this is the sixth RO for MRPL. MRPL has drawn up plans for opening over 100 retail outlets which will improve its overall margins due to addition of marketing margins. The company is in the process of obtaining statutory approvals. MRPL has also taken over retail outlet of ONGC set up near the refinery unit and has now become a part of MRPL retail outlet map.
- Auto fuel up-gradation:** MRPL is in the process of upgrading its facilities to produce BS-VI grade MS& HSD by April 2020 in-line with the Supreme Court directive and Auto fuel upgradation policy of Govt of India.
- Marketing initiatives:** The Company has increased its market presence by way of direct marketing of its products Petcoke, Sulphur and Polypropylene. The company is increasing the product grades of Polypropylene to enhance Polypropylene (PP) market share and thereby fetch higher margins. In Feb'18, it has exported its first cargo of PP.

Maintain BUY

- We have revised our earnings lower to reflect weak GRMs, rupee appreciation and inventory losses. However, lower operating cost, and lower working capital requirement resulting in lower interest cost which will partly mitigate the negative impact. Hence, we now expect MRPL to report an EPS of Rs.-1.6/share in FY19E (earlier Rs.-0.7) and an EPS of Rs.9.4/share in FY20E (earlier Rs.10).
- At current price, the stock is trading at 6.8x P/E and 0.9x P/B multiples on FY20E earnings. We maintain BUY on MRPL with a revised price target of Rs.75 (earlier Rs.92), valuing it at 5.5x FY20E EV/EBIDTA.
- Going ahead, we expect MRPL's profitability to improve on account of i). Improved product mix, ii). Better refining margins iii). Economies of scale, iv). Forward integration - Polypropylene plant and v). Various tax benefits.

Valuation

Particulars	Unit	FY20E	Unit
EBIDTA	Rs. mn		39,450
Multiple EV/EBIDTA	x		5.5
EV	Rs. mn		216,974
Less: Net debt	Rs. mn		85,644
Market cap	Rs. mn		131,330
Fair Value / Share (Rs.)			75
CMP			64
Upside/ (Downside) (%)			17

Source: Kotak Securities - Private Client Research

Key Risk and Concerns:

- Wide fluctuations in crude, forex and product prices can impact the margins.
- If global supply exceeds demand then margins can be under pressure.
- Any delay in executing the project can significantly impact the valuations.

Company Background

Mangalore Refinery and Petrochemicals Ltd. (Mini-Ratna status) is a pure play crude oil refiner with strong promoter backing of ONGC (India's biggest government owned exploration Company). MRPL has transformed itself into a large and complex refinery with phase-III capacity expansion and has emerged into a much stronger player in the industry.

Financials: Consolidated

Profit and Loss Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Revenues	437,548	490,550	623,163	628,874
% change YoY	10.1	12.1	27.0	0.9
EBITDA	49,770	45,020	12,854	39,450
% change YoY	188.6	(9.5)	(71.4)	NM
Other Income	20,269	2,480	3,300	3,400
Depreciation	9,841	9,661	10,056	10,718
EBIT	60,198	37,839	6,097	32,132
% change YoY	341.2	(37.1)	(83.9)	NM
Net interest	9,659	9,127	8,249	7,601
Profit before tax	50,538	28,713	(2,151)	24,530
% change YoY	1,549.2	(43.2)	NM	NM
Tax	17,606	10,977	583	8,095
as % of PBT	34.8	38.2	(27.1)	33.0
Profit after tax	32,932	17,736	(2,735)	16,435
Minority interest	(1,794)	(2,191)	0	0
Share of profit of associates	0	0	0	0
Net income	34,726	19,926	(2,735)	16,435
% change YoY	NM	(42.6)	NM	NM
Shares outstanding (m)	1,753	1,753	1,753	1,753
EPS (reported) (Rs)	19.8	11.4	(1.6)	9.4
CEPS (Rs)	24.4	15.6	4.2	15.5
DPS (Rs)	6.0	3.0	0.0	2.6

Source: Company, Kotak Securities – Private Client Research

Cash flow Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
EBIT	60,198	37,839	6,097	32,132
Depreciation	9,841	9,661	10,056	10,718
Chg in working capital	(174,772)	7,530	(3,882)	4,472
Chgs in other net current assets	-	-	-	-
Operating cash flow	(104,734)	55,030	12,272	47,322
Interest	(9,659)	(9,127)	(8,249)	(7,601)
Tax	(17,606)	(10,977)	(583)	(8,095)
Cash flow from operations	(131,999)	34,926	3,440	31,625
Capex	6,360	(10,188)	(12,605)	(13,169)
(Inc)/dec in investments	(414)	34	21	-
Cash flow from investments	5,947	(10,154)	(12,584)	(13,169)
Others	4,429	43	15,836	(5,400)
Increase/(decrease) in debt	4,496	(25,193)	(3,306)	(13,286)
Proceeds from share premium	-	-	-	-
Dividends	(28)	(12,731)	(6,318)	-
Cash flow from financing	8,897	(37,881)	6,212	(18,686)
Opening cash	138,594	21,438	8,330	5,397
Closing cash	21,438	8,330	5,397	5,168

Source: Company, Kotak Securities – Private Client Research

Balance sheet (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Cash and cash equivalents	21,438	8,330	5,397	5,168
Accounts receivable	26,190	25,768	29,024	31,013
Inventories	44,140	52,404	66,585	65,472
Loans and Adv & Others	20,145	23,710	23,399	23,400
Current assets	111,913	110,211	124,405	125,052
Misc exp.	0	0	0	0
LT investments	419	384	364	364
Net fixed assets	208,383	208,910	211,459	213,910
Total assets	320,715	319,506	336,228	339,326
Payables	60,445	47,926	56,936	59,246
Others	4,739	51,270	59,250	59,307
Current liabilities	65,184	99,196	116,186	118,554
Provisions	31,866	4,536	578	3,559
LT debt	132,596	107,403	104,097	90,812
Min. int and def tax liabilities	-3,953	6,038	4,710	4,710
Equity	17,527	17,527	17,527	17,527
Reserves	77,496	84,808	93,130	104,165
Total liabilities	320,715	319,506	336,228	339,326
BVPS (Rs)	54	58	63	69

Source: Company, Kotak Securities – Private Client Research

Ratio Analysis

(Year-end Mar)	FY17	FY18	FY19E	FY20E
EBITDA margin (%)	11.4	9.2	2.1	6.3
EBIT margin (%)	13.8	7.7	1.0	5.1
Net profit margin (%)	7.9	4.1	(0.4)	2.6
Receivables (days)	22	19	17	18
Inventory (days)	37	39	39	38
Sales/gross assets(x)	2.0	2.2	3.0	2.9
Interest coverage (x)	4.1	3.9	0.3	3.8
Debt/equity ratio(x)	1.4	1.2	1.0	0.8
ROE (%)	20.0	17.7	(2.5)	13.8
ROCE (%)	20.5	12.9	2.6	11.1
EV/ Sales	0.5	0.4	0.3	0.3
EV/EBITDA	4.5	4.7	16.4	5.0
Price to earnings (P/E)	3.2	5.6	NM	6.8
Price to book value (P/B)	1.2	1.1	1.0	0.9

Source: Company, Kotak Securities – Private Client Research

RATING SCALE

Definitions of ratings

BUY	–	We expect the stock to deliver more than 15% returns over the next 12 months
ADD	–	We expect the stock to deliver 5% - 15% returns over the next 12 months
REDUCE	–	We expect the stock to deliver -5% - +5% returns over the next 12 months
SELL	–	We expect the stock to deliver < -5% returns over the next 12 months
NR	–	Not Rated. Kotak Securities is not assigning any rating or price target to the stock. The report has been prepared for information purposes only.
SUBSCRIBE	–	We advise investor to subscribe to the IPO.
RS	–	Rating Suspended. Kotak Securities has suspended the investment rating and price target for this stock, either because there is not a sufficient fundamental basis for determining, or there are legal, regulatory or policy constraints around publishing, an investment rating or target. The previous investment rating and price target, if any, are no longer in effect for this stock and should not be relied upon.
NA	–	Not Available or Not Applicable. The information is not available for display or is not applicable
NM	–	Not Meaningful. The information is not meaningful and is therefore excluded.
NOTE	–	Our target prices are with a 12-month perspective. Returns stated in the rating scale are our internal benchmark.

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