

# Mangalore Refinery & Petrochemicals

## Back to fair valuations; Reduce

### Higher utilization, GRMs deliver a strong Q3

Largely inspired by higher-than-expected throughput and GRMs, MRPL reported strong Q3FY11 results, beating the Street as well as our estimates. With the current annual nameplate capacity of 11.8mmt (2.95mmt quarterly), we were expecting MRPL to achieve a capacity utilization of ~110%. However, the company surprised us by delivering a utilization of 118% (3.49mmt). Similarly, another positive surprise was the higher GRMs, coming in at USD6/bbl against our estimate of USD5.5/bbl (in-line with the Singapore GRMs). The consequent EBITDA estimate beat has percolated to the bottom-line, to post a PAT of INR3.13bn against our estimate of INR2.47bn.

### Iran's crude threat – No instant danger, yet risky

The unease over Iran's threat to stop crude supplies to India persists as a risk to MRPL as it procures roughly 7.5mmt of the 18mmt total supplies to India from that nation. Though, the company assures that currently there are no issues in Iranian crude procurement and that it is working hard to solve the issue, we believe that investors would remain wary until a solution is found.

### Stock back to sensible valuations; Upgrade to Reduce

We had initiated on MRPL in October with a Sell rating and a 14% downside. The stock has declined 17% post our initiation and current valuations look much more reasonable in our opinion. MRPL currently trades at an EV/EBITDA of 6.7x, a fair multiple considering its complexity upgrade that will be completed by March 2012. While we maintain our target price of INR70/share, we now upgrade the stock from a 'Sell' to 'Reduce'. With the prevailing refining environment being lot stronger than the six months back scenario, we believe the medium to long term investors are likely to gain from these levels. However, we caution investors about the possibility of near-term headwinds due to the ongoing issue with Iran, which may hamper MRPL's operations in the shorter term.

## Rating : Reduce

Target Price : INR70

Upside : 4%

CMP : INR67 (as on 8 February 2011)

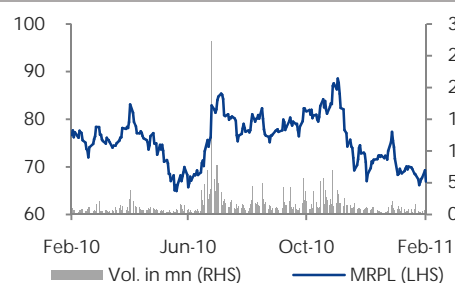
### Key data\*

Bloomberg /Reuters Code	MRPL IN/MRPL.BO
Current /Dil. Shares O/S (mn)	1,752/1,901
Mkt Cap (INRbn/US\$mn)	117/2,591
Daily Vol. (3M NSE Avg.)	843,654
Face Value (INR)	10

1 US\$= INR45.3

Source: Bloomberg; \* As on 8 February 2011

### Price & volume



Source: Bloomberg

Share holding (%)	Q4FY10	Q1FY11	Q2FY11	Q3FY11
Promoter	88.6	88.6	88.6	88.6
Institutional Investors	3.1	3.1	3.3	3.4
Other Investors	0.6	0.7	0.7	0.6
General Public	7.8	7.7	7.5	7.4

Source: BSE

Price performance (%)	3M	6M	12M
BSE Sensex	(14.8)	(2.0)	11.5
MRPL	(22.4)	(13.5)	(12.7)
Chennai Petroleum	(18.8)	(24.5)	(15.5)
Essar Oil	(26.5)	(12.4)	(19.3)

Source: Bloomberg

Y/E Mar (INR mn)	Q3FY11	Q3FY10	YoY(%)	Q2FY11	QoQ (%)	Q3FY11E	Variance (%)
Net Sales	103,308	93,187	10.9	84,790	21.8	98,169	5.2
Operating Expenses	97,758	88,701	10.2	79,818	22.5	93,582	4.5
% of Sales	94.6	95.2		94.1		95.3	
EBITDA	5,551	4,486	23.7	4,972	11.6	4,587	21.0
EBITDA Margins (%)	5.4	4.8		5.9		4.7	
Other Income (Net)	372	697	(46.6)	437	(14.9)	437	(14.9)
Interest	247	289	(14.7)	278	(11.3)	278	(11.3)
Depreciation	982	990	(0.8)	1,003	(2.1)	1,003	(2.1)
PBT	4,694	3,904	20.2	4,128	13.7	3,743	25.4
Tax	1,543	1,308	17.9	1,299	18.8	1,272	21.3
Effective Tax Rate (%)	32.9	33.5		31.5		34.0	
Adjusted PAT	3,151	2,595	21.4	2,829	11.4	2,470	27.6
NPM (%)	3.0	2.8		3.3		2.5	
Reported PAT	3,138	2,595	20.9	2,829	10.9	2,470	27.0

Source: Company, Elara Securities Estimate

Key Financials										
Y/E Mar (INR mn)	Rev	YoY (%)	EBITDA	EBITDA (%)	Adj PAT	YoY (%)	Fully DEPS	RoE (%)	RoCE (%)	P/E (x) EV/EBITDA (x)
FY10	323,523	(15.5)	19,324	6.0	11,123	(6.7)	5.9	19.9	24.8	11.4 7.6
FY11E	364,711	12.7	16,779	4.6	9,177	(17.5)	4.8	14.6	11.0	13.8 8.8
FY12E	380,629	4.4	20,108	5.3	9,601	4.6	5.0	13.7	10.3	13.3 9.9
FY13E	463,615	21.8	35,839	7.7	9,330	(2.8)	4.9	12.2	13.2	13.7 6.7

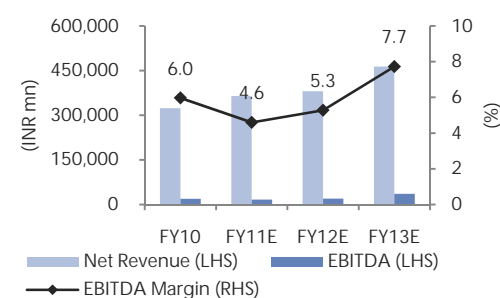
Source: Company, Elara Securities Estimate

## Financials (Y/E Mar)

Income Statement (INR mn)	FY10	FY11E	FY12E	FY13E
Net Revenue	323,523	364,711	380,629	463,615
<b>EBITDA</b>	<b>19,324</b>	<b>16,779</b>	<b>20,108</b>	<b>35,839</b>
Non operating Income	2,641	1,613	3,291	3,215
OPBITDA	21,966	18,391	23,399	39,055
Depreciation & Amortization	3,893	3,956	3,956	12,636
<b>EBIT</b>	<b>18,072</b>	<b>14,435</b>	<b>19,443</b>	<b>26,419</b>
Interest Expenses	1,155	1,056	1,187	8,677
<b>PBT</b>	<b>16,917</b>	<b>13,379</b>	<b>18,256</b>	<b>17,741</b>
Taxes	5,795	4,202	8,655	8,411
<b>Adjusted PAT</b>	<b>11,123</b>	<b>9,177</b>	<b>9,601</b>	<b>9,330</b>
Extra-ordinaries	-	-	-	-
<b>Reported PAT</b>	<b>11,123</b>	<b>9,177</b>	<b>9,601</b>	<b>9,330</b>
Balance Sheet (INR mn)	FY10	FY11E	FY12E	FY13E
Share Capital	17,618	17,618	17,618	17,618
Reserves	38,347	45,093	52,233	59,103
Borrowings	16,964	68,964	118,964	123,964
Deferred Tax (Net)	6,602	4,461	4,461	4,461
Minority Interest	-	-	-	-
<b>Total Liabilities</b>	<b>79,532</b>	<b>136,137</b>	<b>193,277</b>	<b>205,147</b>
Gross Block	74,352	74,852	75,352	245,352
Accumulated Depreciation	41,428	45,395	49,351	61,987
Net Block	32,924	29,456	26,000	183,365
Capital Work In Progress	18,603	77,711	140,769	769
Investments	16,237	16,237	16,237	16,237
Net Working Capital	11,769	13,446	10,984	5,489
Other Assets	-	-	-	-
<b>Total Assets</b>	<b>79,532</b>	<b>136,850</b>	<b>193,990</b>	<b>205,860</b>
Cash Flow Statement (INR mn)	FY10	FY11E	FY12E	FY13E
Cash profit adjusted for non cash items	14,757	12,577	11,453	27,428
Working Capital Changes	12,479	13,496	1,203	(30,225)
<b>Operating Cash Flow</b>	<b>27,235</b>	<b>26,072</b>	<b>12,657</b>	<b>(2,797)</b>
Capex	(10,820)	(59,608)	(63,558)	(30,000)
Free Cash Flow	16,415	(33,536)	(50,901)	(32,797)
<b>Financing Cash Flow</b>	<b>(6,452)</b>	<b>50,970</b>	<b>46,352</b>	<b>(6,138)</b>
<b>Investing Cash Flow</b>	<b>(8,013)</b>	<b>1,613</b>	<b>3,291</b>	<b>3,215</b>
<b>Net change in Cash</b>	<b>1,950</b>	<b>19,047</b>	<b>(1,259)</b>	<b>(35,720)</b>
Ratio Analysis	FY10	FY11E	FY12E	FY13E
Income Statement Ratios (%)				
Revenue Growth	(15.5)	12.7	4.4	21.8
EBITDA Growth	(11.8)	(13.2)	19.8	78.2
PAT Growth	(6.7)	(17.5)	4.6	(2.8)
EBITDA Margin	6.0	4.6	5.3	7.7
Net Margin	3.4	2.5	2.5	2.0
Return & Liquidity Ratios				
Net Debt/Equity (x)	(0.1)	0.5	1.1	1.5
ROE (%)	19.9	14.6	13.7	12.2
ROCE (%)	24.8	11.0	10.3	13.2
Per Share data & Valuation Ratios				
Diluted EPS (INR/Share)	5.9	4.8	5.0	4.9
EPS Growth (%)	(6.4)	(17.5)	4.3	(2.8)
DPS (INR/Share)	-	-	-	-
P/E (x)	11.4	13.8	13.3	13.7
EV/EBITDA (x)	7.6	8.8	9.9	6.7
EV/Sales (x)	0.5	0.4	0.5	0.5
Price/Book (x)	1.9	1.7	1.6	1.4
Dividend Yield (%)	1.8	1.8	1.8	1.8

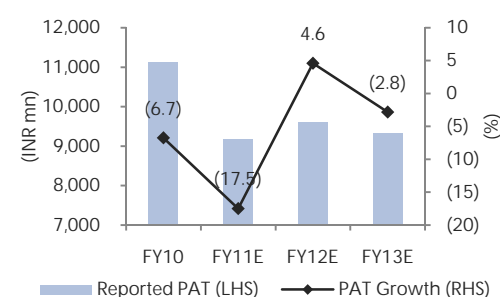
Source: Company, Elara Securities Estimates

## Revenue & margins growth trend



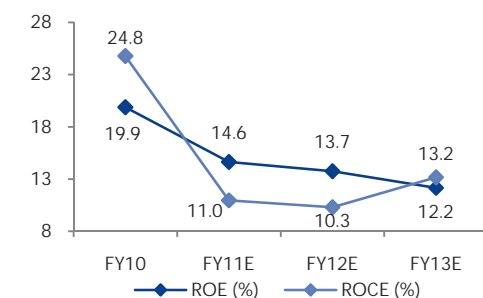
Source: Company, Elara Securities Estimates

## Adjusted profits growth trend



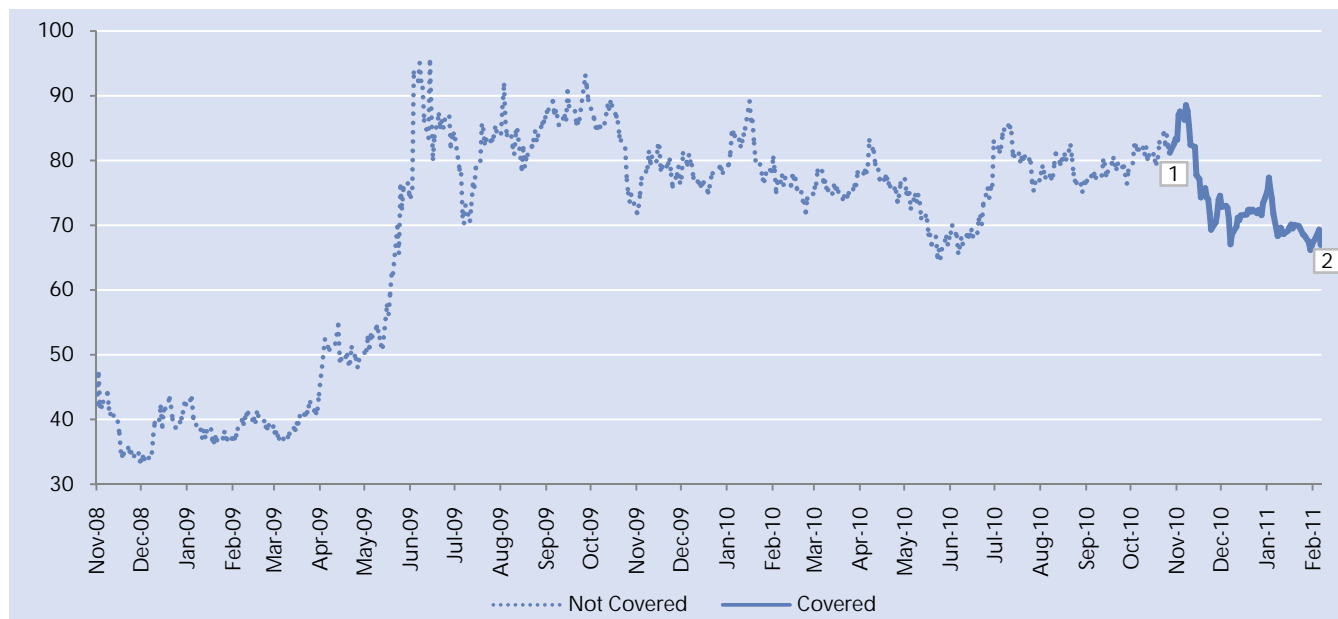
Source: Company, Elara Securities Estimates

## Return ratios



Source: Company, Elara Securities Estimates

### Coverage History



	Date	Rating	Target Price	Closing Price
1	29-Oct-2010	Sell	INR70	INR81
2	8-Feb-2011	Reduce	INR70	INR67

### Guide to Research Rating

<b>BUY</b>	Absolute Return >+20%
<b>ACCUMULATE</b>	Absolute Return +5% to +20%
<b>REDUCE</b>	Absolute Return -5% to +5%
<b>SELL</b>	Absolute Return < -5%

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