TRANSPARENT CAPITAL

NAYARA ENERGY

Research Report FY22

COMPANY PROFILE

Nayara Energy, previously known as Essar Oil, was incorporated in 1989

They own and operates India's second-largest single-site, state-of-the-art refinery. It is one of the most modern and complex refineries in the country.

Nayara Energy is an approved National Highway project supplier of bitumen across the country

The company is engaged in exploration and production, refining and marketing of oil and related products, catering to industries like road construction, power, cement, mining, fertilizer, chemical, shipping, farming etc.

It is the fastest growing fuel retail network, pan India.

CII adjudged Nayara Energy as the National Energy Leader for the years 2019 and 2020

They won Excellent Energy Efficient Unit Award for four years successively

Got a domestic credit rating of 'AA' by CARE amidst uncertain global environment

All the 30 marketing locations of Nayara Energy were certified to Quality (ISO 9001), Environment (ISO 14001) and Occupational Health & Safety (ISO 45001).

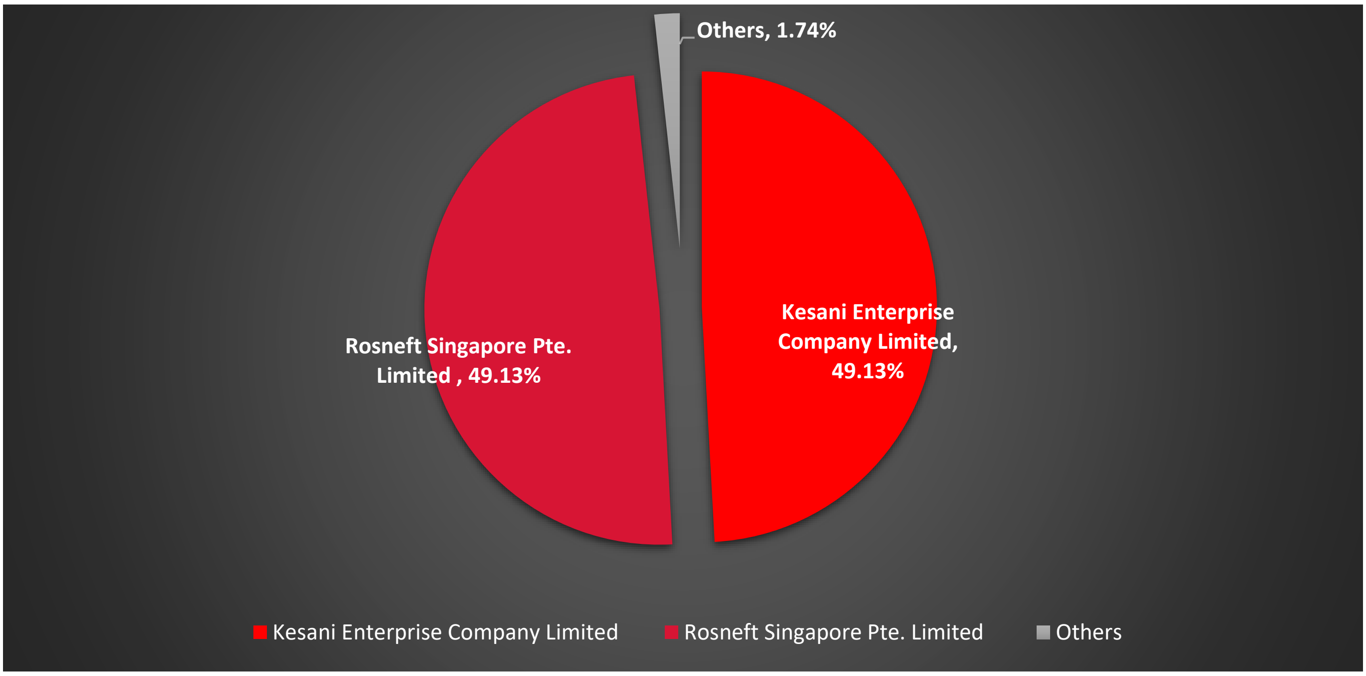
Nayara Energy now has 6000+ retail fuel stations and are planning to expand to 8200+ petrol pumps by 2024

RISKS THAT MAY IMPEDE THE ACHIEVEMENT OF THE TARGET

Key risks include the fluctuation in commodity price, as they are linked to the international market. Since the company transacts in foreign currencies, they are highly subjected to the exchange rate fluctuations. They are also subject to default by counterparty on its contractual obligations, resulting in financial losses to the company.

Shareholding Pattern

Fig.: Shareholding Pattern



Key data on Nayara Energy

Income statement					(INR Cr.)
Year end 31-March	FY18	FY19	FY20	FY21	FY22
Revenue	867704	1004316	1005490	885561	1200028
Expenses	797476	959339	941446	848280	1149353
EBITDA	70228	44977	64044	37281	50675
Depreciation and amortization	14890	15489	22176	19183	19353
EBIT	55338	29488	41868	18098	31322
Interest expenses	27705	22329	27367	20853	17832
Profit before tax	27633	7159	14501	-2755	13490
Provision for tax	4167	1944	-15226	-7420	3191
Extraordinary items	18146	1773	4544	0	0
Profit after tax	5320	3442	25183	4665	10299

Growth metrics (%)	
Year to March	FY22
Revenue growth	35.51%
EBITDA	35.93%
EBIT	73.07%
PBT	-589.66%
Net profit	120.77%
EPS	120.77%

LIQUIDITY	FY22
Current ratio	0.7329
Quick ratio	0.3138

LEVERAGE RATIOS	
Total Debt/Equity ratio	0.380
Total Debt to Total assets ratio	0.887
Interest Coverage	1.76

ACTIVITY DAYS	
Days Receivable	10.73
Days Payable	47.90
Net Debt	5,13,270.00
Net Debt/Equity	2.360
Net Debt/EBITDA	10.129

Price per share	180
P/E	26.04920405
Book value per share	145.9061235
P/B	1.23
Dividend Yield ratio	0
Market Cap	268301007900.00
ROE (%)	4.85%
ROA (%)	1.31%
ROCE (%)	6.16%
Asset turnover Ratio	1.52
Working capital	-86303.00
Working capital/ average total assets	-0.11

Common size metrics- as % of revenues	
Year to March	FY22
Gross margin (%)	8.67%
Depreciation	1.61%
Interest expenditure	1.49%
EBITDA margins (%)	4.22%
Operating margin (%)	2.61%
Net profit margins	0.86%

Increased demands for fuel in India due to the robust economic growth

According to Provisional government data the demand for fuel rose at a rapid pace in the first two weeks of June. The unprecedented demand growth created some temporary logistics issues in remote places, resulting in government expanding universal service obligations (USO) by including all retail outlets under its ambit. Data last week showed India's fuel consumption jumped about 23.8% in May. Furthermore, to meet the demand surge refining capacity utilisation increased to 110% in May from 93% a year earlier shows official data. According to IEA (India Energy Outlook 2021), primary energy demand is expected to nearly double to 1,123 million tonnes of oil equivalent, as the country's gross domestic product (GDP) is expected to increase to US$ 8.6 trillion by 2040. According to IBEF, Crude oil consumption is expected to grow at a CAGR of 4.66% from 201.26 million tonnes in 2021 to 500 MMTPA by 2040. India's oil demand is projected to rise at the fastest pace in the world to reach 10 million barrels per day by 2030, from 4.9 million barrels per day in 2021. Diesel demand in India is expected to double to 163 MMTPA by 2029-30, with diesel and gasoline covering 58% of India's oil demand by 2045. India's energy demand is expected to double to 1,516 Mtoe by 2035 from 753.7 Mtoe in 2017. Moreover, the country's share in global primary energy consumption is projected to increase to two-fold by 2035. *

India is the 3rd largest consumer of oil in the world, and it is 85 per cent dependent on imports to meet its oil needs. Crude oil imports rose sharply to US$ 94.3 billion in FY22 (April to January) from US$ 70.72 billion in FY17. India's consumption of oil products stood at 201.26 MMT in 2021, a 3.7% YoY increase. India's oil consumption stood at almost 4.9 million barrels per day (BPD) in 2021, up from 4.65 million BPD in 2020. To meet the demand India is planning to double its refining capacity to 450-500 million tonnes by 2030. *

Exports of petroleum products from India reached 56.8 MMT worth US$ 21.41 billion in FY21. *

Fig.: Exports of Petroleum Products from Indian (MMT)

Source: INDIAN BRAND EQUITY FOUNDATION

* Source: Indian Brand Equity Foundation

Distribution volumes are witnessing traction; we expect strong growth and improved profitability

Revenues from retail outlets are already higher than the pre-pandemic levels. The FY22 results highlighted a strong 120.77 percent rebound in profits, with revenues exceeding the pre-pandemic level. As Dec-21 witnessed the impact of the fresh wave of the Omicron variant-related lockdowns, it resulted in a minor loss to the company. The impact of covid-19 was nullified by increasing the exports in FY20, which resulted in a dip of 44.85 percent in FY21. The whole Indian industry felt the dip in exports of petroleum products in FY21. But we expect that this will reverse since the ban on Russian oil purchases imposed by many countries, in response to Russia's invasion of Ukraine, has increased their dependence on refiners and suppliers from other countries. This has provided Nayara Energy to benefit by exporting. The ban also discounted the price of Russian supplies, thus resulting in strong margins in overseas markets to buyers of Russian crude. And Rosneft, a Russian Oil company, being a major shareholder of Nayara Energy has added to the benefits to Nayara. Thus, we expect increased revenue from exports in the FY23

The company witnessed a growth in annual revenue by 35.51 percent in FY22. It was possible due to increased demand for petrol and diesel in the post-pandemic period, as people preferred travelling alone due to transmission of virus. We expect that the revenues will continue to rise due to the surge in demand of fuel and the expected consumption in coming years.

Fig.: Export Revenue

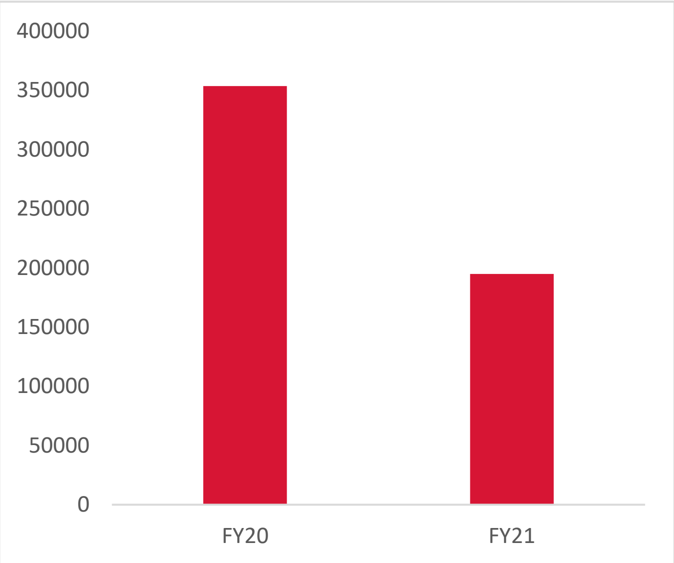


Fig.: Distribution revenue growth profile

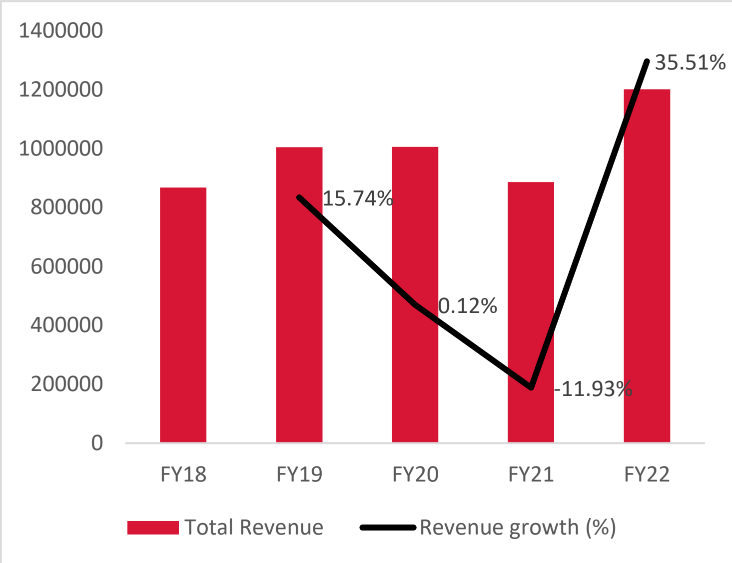
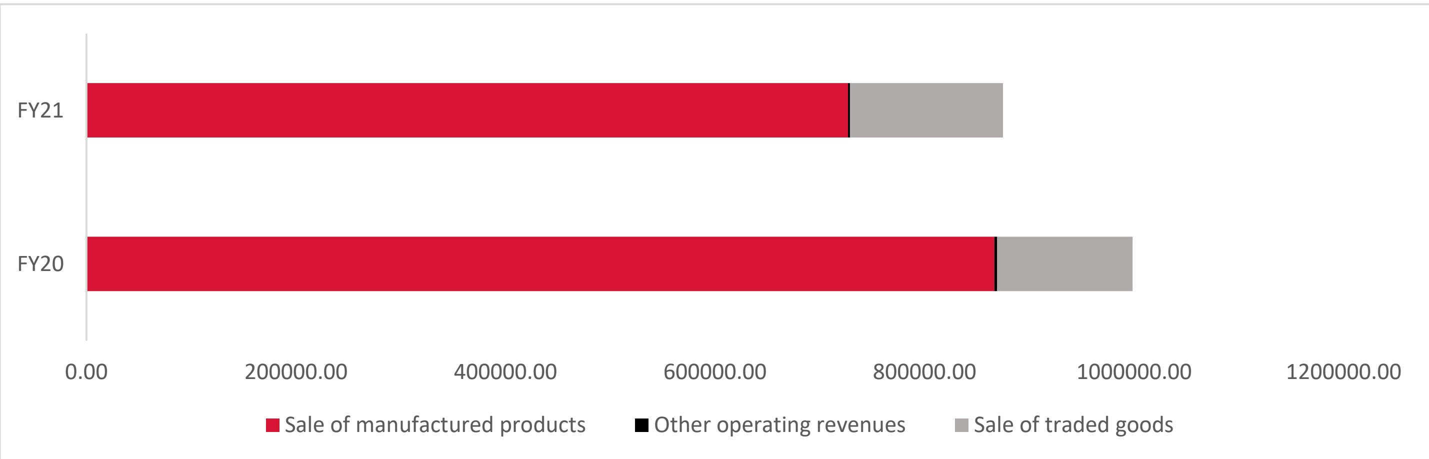


Fig.: Volume based revenue by subsegment

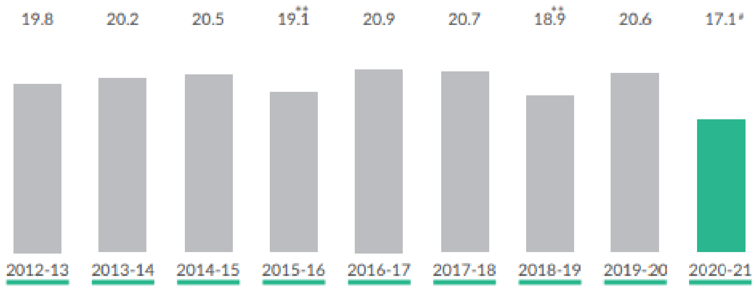


Robust outlook in retail; asset development project all set for execution

The Phase 1 expansion plan, which involves the revamp of FCC and LPG Treatment units and setting up a Propylene Recovery Unit (PRU) and a 450 KTPA polypropylene production unit is all set for its execution stage. The statutory approvals to proceed with the EPC tendering and frontend engineering and design have been received. The contracts for EPC have been granted to Technip India and Toyo Engineering for operational excellence. The company now has 6000+ retail fuel stations and is planning to expand by 36.67 percent by 2024. Company has already announced the Phase 2 plans and will soon undertake partnerships to share the capex burden. The Phase 2 includes the construction of a world scale steam cracker integrated with the refinery, which will produce a profitable range of derivatives. The completion of the whole project will result in more volumes and high returns.

With increased fuel demand in India due to the economic growth the company has lifted production at its refinery. The company was operating at 105% of its installed capacity in May 2022 as opposed to the 85% in FY21.

Fig.: Crude Processed at Vadinar refinery (MMT)



Source: COMPANY DATA

EBITDA and Profit margins

Although the revenues are rising but the EBITDA margins have declined since 2020, but the profits margins have neared the pre-pandemic levels after a huge rise in 2020. Key positive developments have been the reduction of customs duty on certain chemicals used for petroleum refining.

Fig.: Revenue and EBITDA

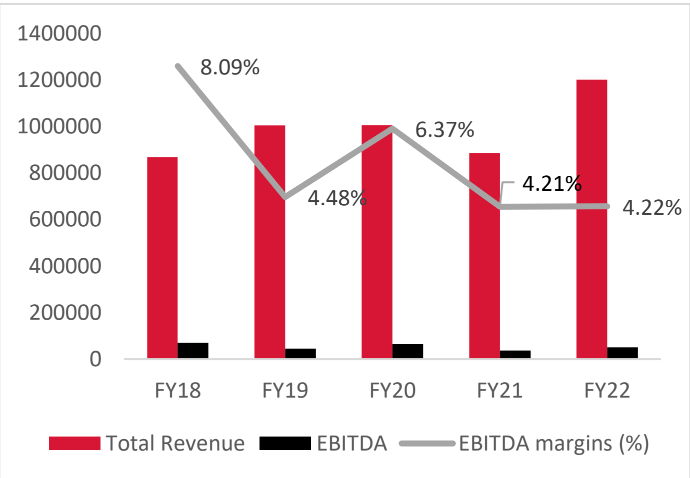


Fig.: Revenue and profit margins

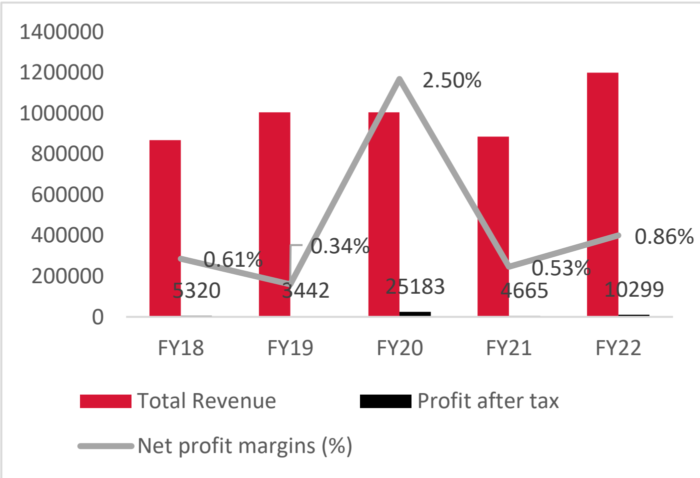


Fig.: Net Debt to EBITDA on a rise

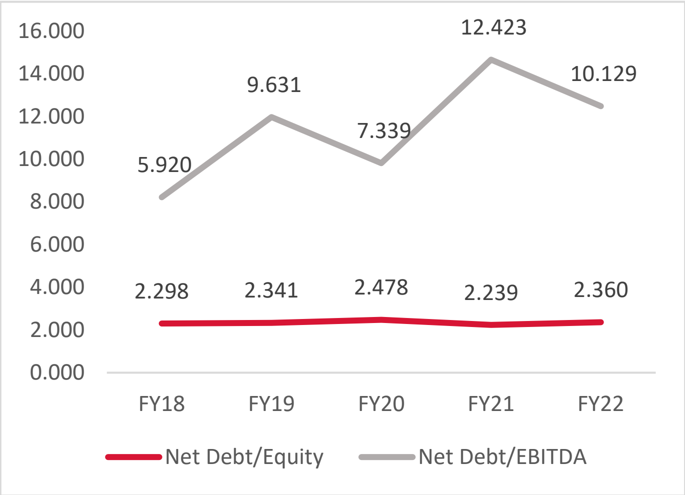


Fig.: ROE and ROCE are nearing pre-pandemic figures

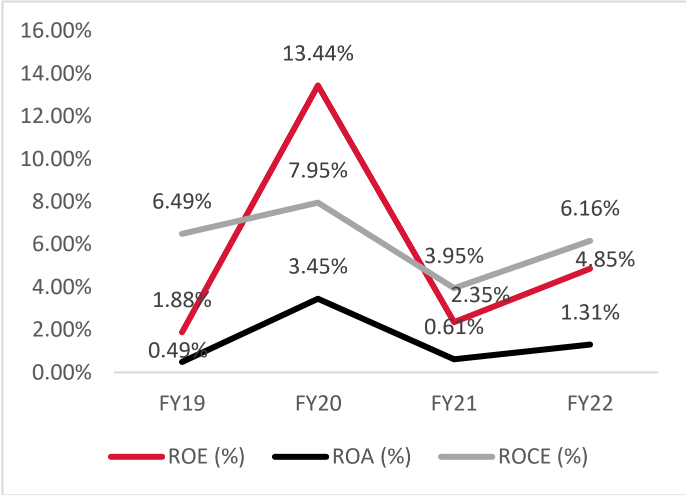
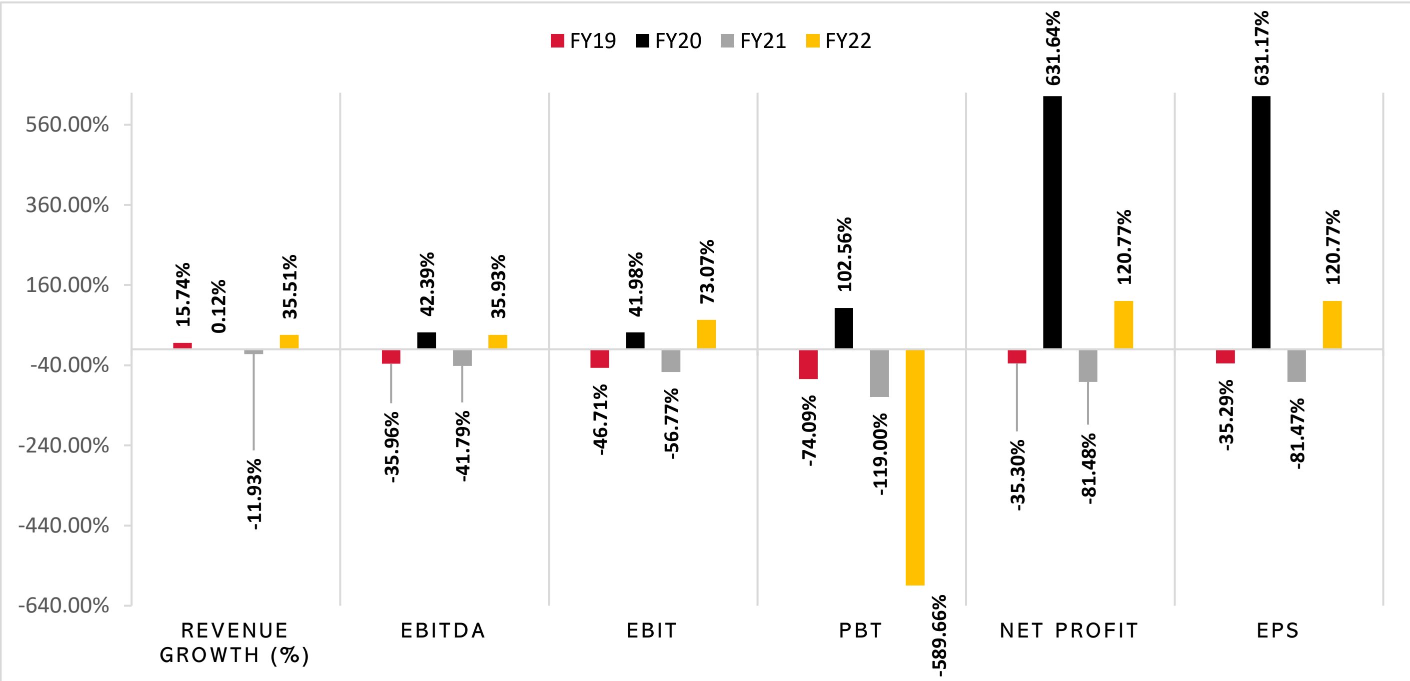


Fig.: Growth Percentages



+91 83198 69295

74/II, "C" Cross Road,
Opp Gate No 2, MIDC
400 093, Seepz,
Andheri East, Mumbai,
Maharashtra 400069