Nayara Energy Limited

March 17, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	17,149.50	CARE AA- (CWD) (Double A Minus) (Under Credit watch with Developing Implications)	Revised from CARE AA (Double A); Revision in credit watch from Negative Implications to Developing Implications
Short Term Bank Facilities	14,855.00	CARE A1+ (A One Plus)	Reaffirmed
Total Bank Facilities	**32,004.50 (Rs. Thirty-Two Thousand Four Crore and Fifty Lakhs Only)**		
Non-Convertible Debentures	256.84	CARE AA- (CWD) (Double A Minus) (Under Credit watch with Developing Implications)	Revised from CARE AA (Double A); Revision in credit watch from Negative Implications to Developing Implications
Non-Convertible Debentures	2,285.00	CARE AA- (CWD) (Double A Minus) (Under Credit watch with Developing Implications)	Revised from CARE AA (Double A); Revision in credit watch from Negative Implications to Developing Implications
Total Long-Term Instruments	**2,541.84 (Rs. Two Thousand Five Hundred Forty-One Crore and Eighty-Four Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in long term ratings assigned to the bank facilities and debt instruments of Nayara Energy Limited (Nayara) considers impact on the credit profile of Rosneft Oil Company (Rosneft) due to ongoing geopolitical events, which is also reflected by Rosneft's credit rating downgrades by global credit rating agencies. CARE Ratings maintains that Nayara is not dependent on operational and financial support from Rosneft in the immediate near term, however, there is a moderation in the comfort that CARE derived from the strength of Rosneft being one of the key shareholders of Nayara as well as any long-term support that would have been received from Rosneft in a timely manner.

The long-term ratings have been placed on 'credit watch with developing implications' on account of the Russian invasion of Ukraine and the resultant economic impact due to sanctions being put on Russia and certain Russian entities and persons. CARE Ratings will continue to monitor the developments in this regard and take appropriate rating action once clarity emerges.

The ratings continue to derive strength from the strong operating profile of the company as it operates India's second-largest single-location refinery with high Nelson Complexity Index (NCI), the strategic location of its refinery along with captive port terminal and power plant, healthy throughput levels, benefits derived from forward-integration in the form of sizeable and growing presence in the fuel retailing space, and an improvement in gross refining margins (GRMs) in the current fiscal after a muted FY21 due to the adverse impact of the COVID-19 pandemic. The ratings continue to consider the strong risk management systems put in place by Nayara to hedge against fluctuation in currency and crude oil prices, while its presence in retail provides stability to the company's revenue stream and insulates the business from vagaries of fluctuation in the refining segment.

The ratings strengths are, however, tempered by the company's exposure to fluctuation in crack spreads, modest debt metrics, the competitive industry scenario as well as inherent government regulation risk in the Indian oil and gas sector, apart from risks associated with execution and stabilisation of the ongoing petrochemicals project.

Rating Sensitivities

Positive Factors – Factors that could lead to positive rating action/upgrade:

- Timely completion of petrochemicals projects within estimated costs and economic ramping-up of the operations.
- The refinery operating at healthy throughput and GRM levels, growth in retailing business and ROCE above 15% on a sustained basis.
- Sustained improvement in overall gearing to below unity.

[1] Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Negative Factors – Factors that could lead to negative rating action/downgrade:

- Any adverse impact of geopolitical situation on the operations of the company.
- Deterioration in capital structure, with the company incurring capex through higher-than-expected borrowings, affecting the overall gearing.

Detailed description of the key rating drivers

Key Rating Strengths

Strong operating profile

Nayara's refinery has one of the highest complexities across refineries in India – a NCI of 11.8 – which enables the company to process heavier grades of crude oil, resulting in higher margins as compared with low complexity refineries. The refinery has a capacity of 20 million metric tonne per annum (MMTPA), which constitutes around 8% of India's refining capacity. It can process crude oil with a blend of 15-60 API (API/American Petroleum Institute gravity is a measure of how heavy or light petroleum liquid is compared with water). Since its commencement, the refinery has consistently achieved crude throughput more than its rated capacity of 20 MMT, except in the cases of planned shutdown and change of catalyst. The company remains exposed to the concentration risk, being a single location refinery, however, the strong operational track record and adequate insurance policies mitigate the risk to a large extent. Owing to the pandemic, the demand for oil products declined, whereas there was oversupply of oil in the first half of CY2021, which has led to reduction in prices by more than half, thereby resulting in worsening of product cracks after Q4FY20. However, the cracks have substantially improved with rebound of global economy due to easing of restrictions and vaccination rollouts globally. Nayara reported improved EBITDA in Q3FY22 on the back of improved cracks and trend is expected to sustain during Q4FY22.

Advantageous location along with captive port terminal and power plant

Nayara's refinery is located at Vadinar, Gujarat, which is strategically located to cater to the demand of domestic and export markets. The company operates a captive all-weather port with a natural 32-m draft (deepest in India allowing 365-day intake) and Single Buoy Mooring (SBM) with crude oil intake capacity of 27 mmtpa. SBM is capable of handling very large crude carriers (VLCC), and is located in the Gulf of Kutch, which also houses SBMs of Indian Oil Corporation, RIL, etc, forming a gateway to about 70% of the total crude imports by India. The port is equipped with two jetties capable of handling vessels up to size of 100,000 deadweight tonnage for a total product off-take of 14 mmtpa. Nayara also operates a captive power plant within refinery premises, which is equipped with oil, gas, liquid and coal-fired boilers and turbines capable of generating a total of 1,010 MWe of co-generative thermal power. The company only utilises its coal-based 510 MWe unit to power its refinery and keeps the remaining units as a back-up.

Growing retail operations

Nayara has a sizeable and growing presence in fuel retailing, with 6,496 operational retail outlets as on December 31, 2021. The company has also built and hired depots to store its own products for increasing supply-chain efficiency, reducing logistic costs and its dependency on PSUs. Owing to outlets being operated primarily through the dealer-owned-and-dealer-operated (DODO) model, the capex requirement of the company is minimal. The Company's retail margin continues to remain strong and contribute in overall EBITDA margin of the Company.

Key Rating Weaknesses

Significant deterioration in credit profile of Rosneft

Nayara's shareholders comprise Rosneft Singapore Pte Limited and Kesani Enterprises Company Limited, a consortium led by Trafigura and UCP, together holding 49.13% share each. Trafigura, founded in 1993 and headquartered in Amsterdam, Netherlands, is one of the largest physical commodities trading groups in the world and Nayara has been receiving continuous support from it through export prepayments. Trafigura's trading business is supported by industrial and financial assets, including a majority ownership of global zinc and lead producer Nyrstar, which has mining, smelting and other operations located in Europe, the US and Australia; a significant shareholding in global oil products storage and distribution company Puma Energy; global terminals, warehousing and logistics operator Impala Terminals; Trafigura's Mining Group; and Galena Asset Management. The UCP investment group is one of the largest financial investment groups in Russia. It was established in 2006 to manage assets of its partners and co-investors. UCP has accumulated a wealth of investment experience while simultaneously proving the reliability and effectiveness of its investment strategies in turbulent market environments.

Rosneft is one of the world's largest public oil and gas companies in terms of reserves and production of the liquid hydrocarbons. Rosneft is the leader in the Russian oil refining sector, owning 13 major refineries in key regions of Russia and ownership stakes in several refineries outside Russia, as well as a wide range of retail sites in 66 regions of Russia, Abkhazia, Belarus, and Kirghizia. Nayara has benefitted from Rosneft's position and expertise in the oil & gas sector being one of the largest oil & gas player in the world. Further, Rosneft has recently infused funds of $ 490 million to support the capital structure of Nayara. However, recently, Rosneft has witnessed sharp deterioration in its credit profile consequent to economic sanctions placed on Russia due to ongoing war between Russia and Ukraine. CARE Ratings believes that Rosneft's flexibility to support Nayara, if required in future, is challenged due to the weakening of credit profile of Resneft.

However, it may be noted that Rosneft has already been under the sectoral sanctions ever since it became a shareholder of Nayara and there has not been any announcement of fresh sanctions on Rosneft. At present, the operations of Nayara are not impacted by the recently announced economic sanctions on Russia. The company does not have any major operational dependence on Russia or Russian entities, including Rosneft, as it sources crude oil from countries such as Iraq, Egypt, countries in Middle East and Latin America etc, while major export destinations include the Netherlands and Far East. Nonetheless, given the severity of the war situation and the resultant global backlash by way of sanctions on Russia, the situation remains uncertain. CARE Ratings will continue to monitor the developments in this regard and take appropriate rating action once clarity emerges.

Moderate debt metrics; albeit improvement in financial position backed by fund infusion
Nayara's financial profile is marked by moderately leveraged capital structure and moderate debt credit metrics. The overall gearing (including finance lease) slightly improved to 1.59x as on March 31, 2021, from 1.81x as on March 31, 2020. The overall gearing is expected to improve as on March 31, 2022, on the back of expected support by the shareholders to the tune of US$ 550 million, of which US$ 490 million has already been received by the company, as of February 2022. Interest coverage moderated to 1.68x in FY21, from 2.30x in FY20, on account of lower absolute PBILDT due to the COVID-19 pandemic. However, the same improved to 2.65x during 9MFY22 due to recovery in profitability and lower interest costs. Going forward, CARE Ratings believes that the company will report an improvement in gearing in debt metrics due to debt reductions, supported by healthier probability and recent fund infusions, irrespective of fresh debt drawdown for the petrochemicals project which entails a total project cost of Rs.6,539 crore, to be funded through debt of Rs.4,016 crore (fully tied-up) and the remaining from internal accruals and fund infusions. The company has spent around Rs.1,450 crore until January 31, 2022, funded through debt of Rs.39 crore and the rest through internal accruals and infusions and achieved physical progress of 48%. The project is likely to achieve COD by August 2023. Timely completion of the project and economic ramping-up of the same will remain crucial from the credit perspective.

Exposure to volatility of crude prices, crack spreads and foreign exchange rates
The oil prices and crack spreads are a function of many dynamic markets and fundamental factors such as global demand supply dynamics, geo-political stability in countries with oil reserves, OPEC policies, exchange rates, etc. The company, as per its policy, entirely hedges its inventory exposure through forward contracts on a regular basis. The hedging helps the company mitigate and manage the price risks. Furthermore, the company imports majority of its crude requirements, which is priced in USD, leading to volatility associated with forex movements. The susceptibility to forex fluctuation is mitigated to a large extent as the company exports nearly 40-50% of its products. Even domestic sales to OMCs are linked in USD, which further mitigates the risk.

Competitive industry and regulatory risk
The company faces stiff competition from PSU oil marketing companies, which owns around 90% of the retail outlets in the country. However, post de-regulation of MS and especially HSD, the company has been expanding its retail presence and remains committed to increase the same, going forward. Furthermore, the company is exposed to regulatory risk, as any interference by the Government of India (GoI) affects its profitability. However, Nayara's sales consist of a sizeable proportion of exports, which offsets the impact to an extent. Despite that, the rating remains sensitive to any regulatory intervention.

Industry outlook
The global oil and gas industry are at an inflection point, with governments placing greater priorities on climate change, emerging alternative sources of energy and likely disruption in mobility with the adoption of gas, hydrogen and electric-based transportation systems. While all these factors will impact industry growth prospects in the long-term, the immediate outlook remains brighter than the past couple of years. Resurgent demand, restricted supplies due to production discipline and lower capex and geopolitical tensions are expected to keep crude oil prices firm in 2022. The outbreak of COVID-19 had led to GRMs of global refiners plummeting to lowest levels in a decade, as demand for refined products crashed, thereby impacting the crack spreads, while significant decline in crude oil and refined products prices resulted in substantial inventory write-downs. The Singapore benchmark GRMs reduced to just US$ 3.25 per barrel in FY20 and further to US$ 1.20 per barrel in FY21, amid weak demand and high fluctuation in prices. Such low yearly GRMs were last seen in FY10. However, with the impact of the COVID19 pandemic receding and global economies coming back on the recovery path, the GRMs are expected to recover meaningfully in FY22; the trend has especially been quite positive post September 2021. The Singapore benchmark GRM is estimated to be above US$ 3 per barrel in CY2021, and therefore, domestic refiners are expected to benefit from higher throughput, better GRMs and resurgent demand during FY22 after facing a tough FY20 and FY21.

Liquidity: Adequate
The company, as on December 31, 2021, had cash and cash equivalents of around Rs.6,915 crore. Besides this, the company has undrawn working capital limits of over Rs.2,000 crore, which provides additional liquidity cushion. The company has long term debt repayments of Rs.4,925 crore in FY22 (including prepayments of certain debt facilities out of funds infused by shareholders). Out of this, NCDs of Rs. 2,400 crore, which was due in July 2021 was refinanced through new NCDs of Rs.2,285 crore). Nayara's total planned capex is around Rs.2,288 crore in FY22 and Rs.4,262 crore in FY23, of which around Rs.4,000 crore for both the years together is towards the polypropylene project while the balance is towards routine and maintenance capex, which will be funded through a mix of debt and equity.

Analytical approach: Standalone

Applicable Criteria
Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's policy on default recognition
CARE's methodology for Short-term Instruments
Financial ratios – Non-financial sector
Rating Methodology – Manufacturing Companies
Liquidity Analysis of Non-financial sector entities

About the Company
Incorporated in 1989, Nayara Energy Limited (formerly known as Essar Oil Limited) is an oil and gas company engaged in refining and marketing. It owns India's second-largest single location refinery – at Vadinar, Gujarat – having a capacity of 20 MMTPA (equivalent to 140 million barrels) and high complexity of 11.8, which allows it to process any kind of crude. The company also has a presence in oil retailing, with 6,496 operational retail outlets in various parts of India, as on December 31, 2021. Furthermore, it plans to expand the number of operational retail outlets to 7,300 by December 2022.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	9MFY22 (UA)
TOI	86155	63565	68441
PBILDT	6299	3505	3601
PAT	2518	466	620
Overall gearing (times)	1.81	1.59	1.33
Interest coverage (times)	2.30	1.68	2.65

A: Audited, UA: Un-Audited

Rating history for last three years: Please refer Annexure-2

Covenants of rated instrument/facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Non-fund-based - STBG/LC		-	-	-	14000.00	CARE A1+
Fund-based - LT-Cash Credit		-	-	-	2000.00	CARE AA- (CWD)
Term Loan-Long Term		-	-	FY39	5631.04	CARE AA- (CWD)
Term Loan-Long Term		-	-	FY36	4016.00	CARE AA- (CWD)
Fund-based - ST-Bill Discounting/ Bills Purchasing		-	-	-	855.00	CARE A1+
Non-fund-based - LTBank Guarantee		-	-	-	5502.46	CARE AA- (CWD)
Debentures-Non-Convertible Debentures	INE011A07107	December 16, 2020	8%	December 15, 2025	256.84	CARE AA- (CWD)
Debentures-Non-Convertible Debentures	INE011A07115	August 13, 2021	8.75%	August 13, 2024	2285.00	CARE AA- (CWD)

Annexure-2: Rating history of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 20192020	Date(s) & Rating(s) assigned in 20182019
1	Non-fund-based - ST-BG/LC	ST	14000.00	CARE A1+	1)CARE A1+ (05-Mar-22) 2)CARE A1+ (30-Jul-21)	1)CARE A1+ (23-Mar-21) 2)CARE A1+ (11-Aug-20) 3)CARE A1+ (02-Apr-20)	-	1)CARE A1+ (19-Mar-19) 2)CARE A1+ (25-May18)
2	Fund-based - LTCash Credit	LT	2000.00	CARE AA- (CWD)	1)CARE AA (CWN) (05-Mar-22) 2)CARE AA; Stable (30-Jul-21)	1)CARE AA; Stable (23-Mar-21) 2)CARE AA; Stable (11-Aug-20) 3)CARE AA; Stable (02-Apr-20)	-	1)CARE AA; Stable (19-Mar-19) 2)CARE AA; Stable (25-May18)
3	Term Loan-Long Term	LT	5631.04	CARE AA- (CWD)	1)CARE AA (CWN) (05-Mar-22) 2)CARE AA; Stable (17-Sep-21) 3)CARE AA; Stable (30-Jul-21)	1)CARE AA; Stable (23-Mar-21) 2)CARE AA; Stable (11-Aug-20) 3)CARE AA; Stable (02-Apr-20)	-	1)CARE AA; Stable (19-Mar-19) 2)CARE AA; Stable (25-May18)
4	Term Loan-Long Term	LT	4016.00	CARE AA- (CWD)	1)CARE AA (CWN) (05-Mar-22) 2)CARE AA; Stable (30-Jul-21)	1)CARE AA; Stable (23-Mar-21) 2)CARE AA; Stable (11-Aug-20) 3)CARE AA; Stable (02-Apr-20)	-	1)CARE AA; Stable (19-Mar-19) 2)CARE AA; Stable (25-May-18)
5	Fund-based - ST-Bill Discounting/ Bills Purchasing	ST	855.00	CARE A1+	1)CARE A1+ (05-Mar-22) 2)CARE A1+ (30-Jul-21)	1)CARE A1+ (23-Mar-21) 2)CARE A1+ (11-Aug-20) 3)CARE A1+ (02-Apr-20)	-	1)CARE A1+ (19-Mar-19) 2)CARE A1+ (25-May18)

6	Debentures-Non Convertible Debentures	LT	-	-	1)Withdrawn (05-Mar-22)	1)CARE AA; Stable (23-Mar-21) 2)CARE AA; Stable (02-Apr-20)	-	1)CARE AA; Stable (19-Mar-19) 2)CARE AA; Stable (25-Jul-18)
7	Debentures-Non Convertible Debentures	LT	256.84	CARE AA- (CWD)	1)CARE AA (CWN) (05-Mar-22)	1)CARE AA; Stable (23-Mar-21) 2)Provisional CARE AA; Stable (11-Aug-20)	-	-
8	Debentures-Non Convertible Debentures	LT	2285.00	CARE AA- (CWD)	1)CARE AA (CWN) (05-Mar-22) 2)CARE AA; Stable (30-Jul-21)	-	-	-
9	Non-fund-based - LT-Bank Guarantee ^	LT	5502.46	CARE AA- (CWD)	1)CARE AA (CWN) (05-Mar-22)	-	-	-

* Long Term / Short Term ^The amount had already been rated earlier; it has only been reclassified separately from the term loans

Annexure-3: Detailed explanation of covenants of the rated instrument/facilities-NA

Annexure-4: Complexity level of various instruments rated for this company

Sr. No	Name of instrument	Complexity level
1	Debentures-Non-Convertible Debentures	Simple
2	Fund-based - LT-Cash Credit	Simple
3	Fund-based - ST-Bill Discounting/ Bills Purchasing	Simple
4	Non-fund-based - LT-Bank Guarantee	Simple
5	Non-fund-based - ST-BG/LC	Simple
6	Term Loan-Long Term	Simple

Annexure-5: Bank Lender Details for this Company
To view the lender wise details of bank facilities please click here

Note on complexity levels of the rated instrument: CARE Ratings Ltd. has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About CARE Ratings Limited:
Established in 1993, CARE Ratings Ltd. is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India (SEBI), it has also been acknowledged as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). With an equitable position in the Indian capital market, CARE Ratings Limited provides a wide array of credit rating services that help corporates to raise capital and enable investors to make informed decisions backed by knowledge and assessment provided by the company.
With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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