Nayara Energy Limited
September 17, 2021

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities-Term loans/ECB/EPBG^	**9,365.42 (Enhanced from 5,349.42)**	**CARE AA; Stable (Double A; Outlook: Stable)**	**Reaffirmed**
Total Facilities	**9,365.42 (Rs. Nine Thousand Three Hundred Sixty-Five Crore and Forty-Two Lakhs Only)**		

Details of instruments/facilities in Annexure-1
^out of total loan Rs.18,291.86

Other ratings:

Instrument	Amount (Rs. Crore)	Rating
Long-term Bank Facilities-Term loans/ECB/EPBG^	8,926.44 (Rs. Eight thousand nine hundred twenty six crore and forty four lakh only)	**CARE AA; Stable (Double A; Outlook: Stable)**
Long-term Bank Facilities – Fund-based Limits	2,000.00 (Rs. Two thousand crore only)	**CARE AA; Stable (Double A; Outlook: Stable)**
Short-term Bank Facilities – Bill Discounting	950.00 (Rs. Nine hundred fifty crore only)	**CARE A1+ (A One Plus)**
Short-term Bank Facilities – Non-fund-based Limits	12,200.00 (Rs. Twelve thousand two hundred crore only)	**CARE A1+ (A One Plus)**
Non-Convertible Debentures^	2,500 (Rs. Two thousand five hundred crore only)	**CARE AA; Stable (Double A; Outlook: Stable)**
Non-Convertible Debentures	256.84 (Rs. Two hundred fifty six crore and eighty four lakh only)	**CARE AA; Stable (Double A; Outlook: Stable)**

**outstanding amount Rs.2285 Cr*
^out of total loan Rs.18,291.86

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Nayara Energy Limited (Nayara) continue to derive strengths from strong market position of its shareholders, i.e., Rosneft Singapore Pte Limited, a subsidiary of Rosneft Oil Company and Kesani Enterprises Company Limited, a consortium comprising Trafigura & United Capital Partners (UCP) investment group, together having 49.13% shareholding each along with their continuous support to Nayara in sourcing of crude, offtake of products or in export prepayments. The strengths are further derived by Nayara's flexibility in sourcing of crude, its strong operational profile being India's second-largest single-location refinery, continuous more than 100% refinery throughput since commencement (except planned shutdown and in event of change of catalyst) and strategic location of its refinery along with captive port terminal and power plant albeit the company being a single-asset facility. The ratings also positively factor in growth in its retail operations resulting in increasing contribution to profitability as well as Nayara's hedging policy which negates the volatility in crude prices and foreign exchange and its impact on profitability.

The aforementioned rating strengths are tempered by reporting of poor Gross Refining Margin (GRM) owing to vulnerability in crack spreads in FY21 (refers to the period April 1 to March 31), thus leading to sharp decline in refining profits, moderate capital structure and debt credit metrics, competitive industry scenario as well as government regulation risk in the Indian Oil & Gas segment.

<u>Rating Sensitivities</u>

Positive Factors (Factors that could lead to positive rating action/upgrade)

- *Improvement in PBILDT margins from current level and increasing to at least 10% on improvement in GRMs on consistent basis.*
- *Improvement in overall gearing to below unity on a sustained basis owing to shareholders support as envisaged.*

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[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

Negative Factors (Factors that could lead to negative rating action/downgrade)

- *No shareholders support as envisaged resulting in overall gearing at current levels or deterioration in overall gearing.*
- *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 market position of consortium shareholders

Nayara's shareholders comprise Rosneft Singapore Pte Limited and Kesani Enterprises Company Limited, a consortium led by Trafigura and United Capital Partners (UCP), together holding 49.13% share each.

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 thirteen major refineries in key regions of Russia and ownership stakes in a number of refineries outside Russia, as well as wide range of retail sites in 66 regions of Russia, Abkhazia, Belarus and Kirghizia.

Trafigura, founded in 1993 and headquartered in Amsterdam, Netherlands, is one of the largest physical commodities trading groups in the world. The 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, Americas 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. Trafigura has achieved turnover and Net profit of US $147 billion and US $1.6 billion in 2020.

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.

The shareholders, both Rosneft and Trafigura, have extended their support to Nayara for procurement of crude and exports of refined products from time to time. The shareholders have also supported Nayara by providing long and mid-term export prepayments backed by offtake contracts at optimal market costs.

Advantageous location along with captive port terminal and power plant

Nayara's refinery is located at Vadinar, Gujarat, which is strategically located to cater the demand of domestic and export markets.

Port facilities: Nayara operates a captive all weather port with a natural 32-meter 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 crude Very Large Crude Carriers (VLCC), is located in the Gulf of Kutch which also houses SBMs of Indian Oil Corporation, RIL, etc., forming 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 total product off-take of 14 mmtpa.

Power Plant: 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 utilizes its coal-based 510 MWe unit to power its refinery and keeps remaining units as backup.

Strong operating profile

Nayara's refinery has one of the highest complexities across refineries in India, a Nelson Complexity Index (NCI) of 11.8. Due to high complexity of refinery, Nayara is easily able to process heavier grades of crude oil resulting in higher margins when compared with low complexity refineries. The company during past few years has processed more than 60% of ultra-heavy, 30% of heavy and remaining light crude. The refinery has a capacity of 20 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 case of planned shutdown and change of catalyst. Owing to the pandemic, the demand for oil products declined, whereas there was oversupply of oil in first half of CY2021, which has led to reduction in prices by more than half. This led to worsening of product cracks in Q4FY20 and further. However, the cracks have improved with easing of restrictions and vaccination rollouts in major economies.

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.

Continuous growth in retail operations and its contribution to profit

Nayara also has a presence in retailing of oil with 6,059 operational retail outlets as on March 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 Dealer Owned and Dealer Operated (DODO) model, the capex requirement of the company is minimal. The company has generated retail margin of around Rs.2,800 crore in FY21. The sharp increase in retail margin in FY21 is mainly because the retail prices in the country did not decline in proportion to the fall in crude prices in Q1FY21. Nayara continues to earn higher retail margin as prices for petroleum products have reached an all-time high.

Key Rating Weaknesses

Lower throughput, poor GRMs leading to dampening of profitability, however, compensated by higher marketing margins

The total operating income for FY21 was lower when compared with FY20, because of sharp decline in crude prices during Q1FY21, though recovered, but were still lower when compared with FY20. Also, due to imposition of lockdown in wake of first wave of pandemic the revenue declined, however, improved with the opening up of economy. The throughput also declined on account of replacement of catalyst required for consistent production of BS-VI fuel which led to halting of production for more than 20 days.

There has been continuous decline in GRMs since FY20 owing to first wave of pandemic as well as fallout within OPEC. The oil prices hit historical low in the month of March and April 2020. The demand for petroleum products declined significantly in Q1FY21 due to outbreak of the pandemic globally. This unprecedented crisis led to sharp fall in product cracks as the world was forced to impose nationwide lockdown to tackle the outbreak. As the spread of pandemic receded globally in Q2FY21, the restrictions on movement of goods and people across the country and worldwide eased. With increase in the demand for petroleum products on account of easing of restrictions, accelerating of economic recovery owing to significant progress in vaccination rollout in major economies, the product cracks have significantly recovered from the lowest. The decline in refining GRM was compensated by higher marketing margins earned by the company. Absolute PBILDT declined to Rs.3,506 crore in FY21 (audited) from Rs.6,304 crore in FY20.

Leveraged capital structure and moderate debt credit metrics

Nayara's financial profile is marked by leveraged capital structure and moderate debt credit metrics. Overall gearing (including finance lease) slightly improved to 1.58x as on March 31, 2021 from 1.80x as on March 31, 2020. Overall gearing is expected to improve as on March 31, 2022 on the back of expected support by the shareholders during FY22. Interest coverage moderated to 1.79x in FY21 from 2.29x in FY20 on account of lower absolute PBILDT. Total debt to gross cash accruals also worsened to 19.92x in FY21 from 11.40x in FY20. The company has planned capex to setup polypropylene project which will be funded by debt and equity. The overall gearing of the company is not expected to deteriorate any further in coming years. Going forward, timely support from shareholders shall remain crucial from the credit perspective and hence it shall remain key monitorable.

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. This hedging helps the company to mitigate and manage the price risks. Furthermore, the company imports almost 90% of its crude requirements which is priced in USD leading to volatility associated with forex movements. Susceptibility to forex fluctuation is mitigated to a large extent as company exports more than 40% 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. Further, the company is exposed to regulatory risk, as any interference by GoI affects the profitability. However, Nayara Energy sales consist more than 40% exports, which offsets the impact to an extent. Despite that, the rating remains sensitive to any regulatory intervention.

Liquidity: Strong - The company as on July 31, 2021, had cash and cash equivalents of around Rs.4,000 crore. Along with cash balance, the company has undrawn fund-based limits to the extent of Rs.3,000 crore which provides additional liquidity cushion. The company has debt repayments of Rs.3,329 crore in FY22 (including NCDs of Rs.2,400 crore which is now refinanced)

refinanced. Whereas the capex planned is around Rs.5,400 crore in next two years of which around Rs.3,500 crore is towards polypropylene project and balance towards routine and maintenance capex which will be funded through mix of debt and equity. These repayments and part capex are expected to be made through generation of gross cash accruals and through debt.

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]
[Rating Methodology: Notching by factoring linkages in Ratings]
[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 Million Metric Tons Per Annum (MMTPA; equivalent to 140 million barrels) and high complexity of 11.8, which allows it to process any kind of crude. It can process wide variety of crude oil ranging from ultra-heavy, high Sulphur, sour crude (i.e., low API) to low Sulphur light crude (i.e., high API) and has the flexibility to achieve the product slate based on expected demand. The refinery processes more than 80% of heavy and ultra-heavy crude with API ranging from 15-60 API with an average API of 24.

Nayara also operates an all-weather captive port with a natural 32-meter draft in an 8 km distance with an intake capacity of 27 MMTPA of crude via Single Buoy Mooring (SBM). Along with captive port, it also operates crude storage tanks of capacity 7.15 million barrels which are directly connected to SBM via 20 Km sub-sea and onshore pipes and also to refinery via 7 Km onshore pipe and product and intermediary storage tanks of capacity 12.94 million barrels connected to jetties. The company also operates a captive power plant within refinery premise which is equipped with oil, gas, liquid and coal fired boilers and turbines capable of generating a total of 1010 Mw of co-generative thermal power.

The company also has a presence in oil retailing with 6,059 operational retail outlets in various parts of India as on March 31, 2021. Furthermore, it plans to expand the number of operational retail outlets to 7,300 by December 2022.

(Rs. Crore)

Brief Financials (Consolidated)	FY19 (A)	FY20 (A)	FY21 (A)
Total operating income	87,193	86,160	63,566
PBILDT	5,565	6,304	3,506
PAT	689	2,500	467
Overall gearing (times)	1.61	1.80	1.58
Interest coverage (times)	2.17	2.29	1.79

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Term Loan-Long Term	-	-	-	9365.42	CARE AA; Stable

CARE Ratings
Professional Risk Opinion

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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Non-fund-based - ST-BG/LC	ST	12200.00	CARE A1+	1)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-May-18)
2.	Fund-based - LT-Cash Credit	LT	2000.00	CARE AA; Stable	1)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)
3.	Term Loan-Long Term	LT	9365.42	CARE AA; Stable	1)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)
4.	Term Loan-Long Term	LT	8926.44	CARE AA; Stable	1)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-Bills discounting/ Bills purchasing	ST	950.00	CARE A1+	1)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-May-18)
6.	Debentures-Non Convertible Debentures	LT	2400.00	CARE AA; Stable	-	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

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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
								(25-Jul-18)
7.	Debentures-Non Convertible Debentures	LT	256.84	CARE AA; Stable	-	1)CARE AA; Stable (23-Mar-21) 2)Provisional CARE AA; Stable (11-Aug-20)	-	-
8.	Debentures-Non Convertible Debentures*	LT	2500.00	CARE AA; Stable	1)CARE AA; Stable (30-Jul-21)	-	-	-

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

**outstanding amount Rs.2285 Cr*

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

Sr. No.	Name of the Instrument	Complexity Level
1.	Term Loan-Long Term	Simple

Annexure 5: Bank Lender Details

Click here to view Bank Lender Details

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

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About CARE Ratings:
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