Nayara Energy Limited

August 24, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	14,769.92 (Reduced from 16,145.76)	CARE AA-; Stable	Reaffirmed
Short-term bank facilities	14,855.00	CARE A1+	Reaffirmed
Non-convertible debentures	256.84	CARE AA-; Stable	Reaffirmed
Non-convertible debentures	-	-	Withdrawn

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities and debt instruments of Nayara Energy Limited (Nayara) continue to derive strength from its strong operating profile as it operates India's second-largest single-location oil refinery with a high Nelson Complexity Index (NCI), and the strategic location of its refinery along with captive port terminal and power plant, the healthy throughput levels in FY23 (refers to the period from April 1 to March 31) and Q1FY24, the long-term benefits being derived from forward-integration in the form of a sizeable and growing presence in the fuel retailing space, and significant improvement in the gross refining margins (GRMs) in FY23 and the current fiscal (until Q1FY24) resulting in improved financial performance of the company with significant deleveraging along-with its strong liquidity. The ratings also continue to factor the risk management systems put in place by Nayara to hedge against fluctuations 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 fluctuations in the refining segment.

The above ratings strengths are, however, tempered by negative impact of the ongoing Russia-Ukraine conflict on the credit rating of Rosneft Oil Company (Rosneft; one of the key shareholders of Nayara) by global credit rating agencies, Nayara's exposure to the fluctuations in crack spreads, moderate (although improving) 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 which is delayed compared to previously envisaged timelines.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Significant improvement in the credit rating of one of Nayara's Shareholders viz. Rosneft by global credit rating agencies
- The refinery continuing to operate at healthy throughput and GRM levels in a steady state scenario
- Growth in the retailing business and economic ramping-up of the operations of its petrochemical project leading to significant improvement in return on capital employed (ROCE) on a sustained basis while continuing to maintain its low leverage and healthy liquidity.

Negative factors

- Sustained decline in throughput and GRMs or any adverse impact of the geopolitical situation on the operations of the company.
- Total Debt/PBILDT exceeding 2.50x on a sustained basis
- Large dividend payout/extension of loans & advances diluting its current strong liquidity
- Delay in completion and stabilisation of polypropylene project resulting in lower-than-envisaged returns

Analytical approach: Standalone

Outlook: Stable

The 'Stable' outlook on the rating reflects the expectation that Nayara shall continue to remain a strong player in the private sector oil refining business in India with healthy refining margins on the back of high complexity index of its refinery which should help it to maintain its strong credit profile.

Detailed description of the key rating drivers:

Key strengths

Strong operating profile: Nayara's refinery has one of the highest complexities across refineries in India marked by 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 American Petroleum Institute gravity. During FY23, 97% of Nayara's processed crude comprised ultra-heavy and heavy grade. Also, during FY23, Nayara has produced around 85% output

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

in the form of light and middle distillate which have higher realisations vis-à-vis heavy distillate. Since its commencement, the refinery has consistently achieved throughput more than its rated capacity of 20 MMTPA, except in the cases of planned shutdown. Nayara derives more than 60% sale from the domestic market through own retail outlets and sale to domestic oil marketing companies (OMCs) and balance from the export markets.

Nayara remains exposed to the concentration risk being a single-location refinery; however, the strong operational track record and adequate insurance policies in place mitigate the risk to a large extent. The operating profile is expected to remain strong in the medium term on the back of established market position in domestic refining industry with healthy throughputs and operational efficiency.

Advantageous location along with a 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 which is deepest in India and allows 365-day intake along with a Single Buoy Mooring (SBM) with a crude oil intake capacity of 27 MMTPA. The 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, Reliance Industries Limited, 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 the size of 100,000 deadweight tonnage for a total product off-take of 14 MMTPA each. Nayara also operates a captive power plant within the 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 primarily utilises its coal-based 510 MWe unit to power its refinery and keeps the remaining units as a backup.

Growing retail operations: Nayara has a sizeable and growing presence in fuel retailing, with over 6,300 operational retail outlets as on March 31, 2023. Nayara has also built two greenfield rail-fed fuel depots at Wardha (Maharashtra) and Pali (Rajasthan) and hired depots to store its own products resulting in decline in logistic cost and its dependency on public sector undertaking (PSU) oil marketing companies (OMCs). Nayara's outlets are operated primarily through the dealer-owned-and-dealer-operated (DODO) model, resulting in minimal capex requirement in retail channel. Growing presence in the retail channel mitigates any adverse impact due to volatility in fuel cracks in refining segment to some extent, although the retail sector is vulnerable to its inability to pass on sharp increase in crude prices amidst strong competition from PSU oil marketing companies.

Sustained healthy operational performance further aided by elevated fuel cracks: Nayara's refinery continued to operate at more than its rated capacity during FY23 and Q1FY24 except in November 2022 due to planned plant shutdown. Amidst strong recovery in demand of petroleum products post covid-19 pandemic and disruption due to Russia-Ukraine war, fuel cracks improved substantially during Q1FY23 and remained healthy during next four quarters albeit with some moderation. Healthy fuel cracks and sourcing of relatively cheaper Russian grade crude aided GRMs of domestic refiners including that of Nayara during FY23 and Q1FY24. Accordingly, Nayara clocked significantly high GRMs during FY23 and Q1FY24 compared with FY22 and historically. In the retail channel, Nayara's profitability was adversely impacted in FY23 because of its inability to pass on the high crude oil prices to the customers. However, retail channel profitability improved in Q1FY24 amidst decline in crude oil prices.

Consequently, Nayara reported significantly better profitability marked by PBILDT margin of 15.01% and 16.96% in FY23 and Q1FY24 respectively vis-à-vis 5.07% in FY22. Profitability margins are expected to normalise going forward with expected normalisation of fuel cracks albeit support is expected from its growing retail business.

Improved leverage and debt coverage indicators: Nayara's financial risk profile has improved during FY23 and Q1FY24 on account of heathy accruals resulting in improved capital structure and debt protection metrics. Nayara's capital structure improved marked by overall gearing of 0.88x as on June 30, 2023 vis-à-vis 1.87x as on March 31, 2022, due to accretion of healthy profits and pre-payment of non-convertible debenture (NCD) of ₹2,285 crore and lease liabilities along with low utilisation of working capital limits. Although improved, its absolute debt level continues to remain high at ₹30,100 crore as on June 30, 2023.

Also, its debt protection metrics improved marked by total debt/PBILDT of 1.80x as on March 31, 2023 compared with 8.55x as on March 31, 2022. Going forward, Nayara's capital structure is expected to improve, despite expected debt drawdown for the ongoing petrochemicals project which entails a total project cost of ₹6,539 crore, to be funded through debt of ₹4,016 crore (fully tied-up) and balance from internal accruals. Nayara has completed capex of ₹3,629 crore by March 31, 2023, funded through debt of ₹2,337 crore and balance through internal accruals with physical progress of over 90%. Scheduled Commercial Operation Date (SCOD) of the project has, however, been delayed to Q4FY24 vis-à-vis earlier envisaged SCOD of August 2023, which is a negative development as against previous estimates. Consequently, timely completion of the project and economic ramping up of the same leading to significant improvement in its ROCE, which will remain crucial from the credit perspective.

Liquidity: Strong

Nayara's strong liquidity derives comfort from cash and cash equivalents of around ₹11,657 crore as on June 30, 2023 and large amount of undrawn sanctioned fund and non-fund based working capital limits. Furthermore, Nayara's cash accruals are expected to have significant cushion vis-à-vis its term debt repayment obligations in the medium term. Nayara has a committed capex of around ₹2,655 crore in FY24 towards polypropylene project, which is proposed to be met through term debt and available liquidity. On the back of its strong liquidity, Nayara prepaid its NCDs of ₹2,285 crore by end-FY23. Nayara's plans to deploy the current healthy liquidity and its impact on its credit profile will be a key monitorable.

Key weaknesses

Weak credit risk profile of Rosneft amidst Russia Ukraine war and economic sanctions along with exit of Trafigura as one of its JV partners: Nayara's shareholders comprise Rosneft Singapore Pte Limited and Kesani Enterprises Company Limited, a consortium led by Mareterra (replaced Trafigura in January 2023) and United Capital Partners (UCP), together holding 49.13% share each in Nayara.

Trafigura, a multi-national global commodity trading company, sold its stake in Kesani Enterprises Company Limited to Hara Capital Sarl in January 2023, a wholly-owned subsidiary of Mareterra Group Holding, an energy investment group with a focus on energy and carbon efficiency infrastructure.

Rosneft is one of the world's largest public oil and gas companies in terms of reserves and production of liquid hydrocarbons. It has around 6% share in global oil production, 40% and 8% share in oil & gas production in Russia respectively, 35% share in Russian refining market and has around 3,000 fuel retail outlets in Russia. It owns several oil refineries in key regions of Russia and ownership stakes in refineries outside Russia, as well as wide range of retail sites in 66 regions of Russia and nearby geographies. Nayara had earlier benefitted from Rosneft's leadership position and expertise in the oil and gas sector. Rosneft had infused US $490 million in Nayara Energy Singapore Pte Limited (NESPL), the Singapore-based subsidiary of Nayara in H2FY22 to support Nayara's liquidity amidst uncertainties caused by Covid-19.

UCP Investment Group is one of the largest financial investment groups in Russia and was established in 2006. Mareterra Group Holding (earlier known as Genera Group) operates in fields of energy and process efficiency, energy production, green infrastructure and EV charging stations with presence in Europe, Brazil, China and USA.

Rosneft witnessed sharp correction in its credit rating by global rating agencies consequent to economic sanctions placed on Russia due to the ongoing war between Russia and Ukraine.

Although, the operations of Nayara have hitherto not been significantly impacted by the economic sanctions on Russia or Russian entities including Rosneft, however, CARE Ratings believes that Rosneft's flexibility to support Nayara, if required, in future has got severely impacted due to the weakening of its credit rating amidst sustained geopolitical tensions and possibility of tightening of economic sanctions on Russia/Russian entities. While CARE Ratings had previously derived strength from Rosneft in the credit assessment of Nayara, the downgrade in the credit rating of its key shareholder has similarly resulted in negative impact on Nayara's credit profile.

Exposure to the volatility of crude prices, fuel cracks, and foreign exchange rates: Oil and petroleum product prices are a function of global demand-supply dynamics which is primarily influenced by Organization of the Petroleum Exporting Countries (OPEC) policies, geo-political situation in countries with oil reserves, economic growth, exchange rates etc.

Nayara, as per its policy, hedges its inventory exposure through hedging instruments on a regular basis which reduces the impact of market volatility in crude oil and product prices on its profitability. Furthermore, Nayara imports majority of its crude requirements which is denominated in US Dollar; However, Nayara has natural hedge in the form of exports (around 30-40% of total sales). Also, domestic sales to oil manufacturing companies are linked to US Dollar, which further mitigates the risk.

Competitive industry and regulatory risk: The company faces stiff competition from PSU oil marketing companies, which own around 90% of the retail outlets in the country. However, post-deregulation of motor spirit (MS) and especially high-speed diesel (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), may affect its profitability. However, Nayara's sales consist of a sizeable proportion towards exports, which offsets the impact to an extent. GoI has been imposing windfall taxes on export of certain products like HSD and ATF, however, GOI has also reduced/removed windfall taxes when product margins normalises. Consequently, the rating remains sensitive to any regulatory intervention significantly impacting profitability of Nayara.

Industry prospects

The global oil and gas industry is at an inflection point, with governments placing greater priorities on climate change, emerging alternative sources of energy, and the likely disruption in mobility with the adoption of gas, hydrogen and electric-based transportation systems. While all these factors will impact the industry growth prospects in the long term, the immediate outlook remains stable for the sector. The outbreak of COVID-19 had led to GRMs of global refiners plummeting to the lowest levels in a decade, as demand for refined products crashed, thereby impacting the crack spreads, while a significant decline in crude oil and refined products prices resulted in substantial inventory write-downs. However, with the impact of the COVID-19 pandemic receding and global economies attempting to return on the recovery path, the Singapore benchmark GRMs rebounded meaningfully in FY22 to US$ 4.9 per barrel. Furthermore, geopolitical tensions due to the war between Ukraine and Russia and the resultant dislocation in global refining capacities, product cracks and GRMs shot up significantly which, however, temporarily helped the refiners to post significantly higher GRMs during FY23. The GRMs are expected to moderate in FY24 while remaining healthy, helping refiners. The global slowdown with the sluggish recovery of the Chinese economy, interest rate hikes, and inflationary pressures resulted in a decline in crude oil prices in Q1FY24 as the global consumption of crude oil declined. However, the decline in crude oil prices was limited with the production cut announced by OPEC. The announcement of production cuts have again resulted in spike in crude prices, leading to product prices remaining high.

Applicable criteria

Policy on default recognition
Rating Outlook and Credit Watch
Manufacturing Companies
Notching by factoring linkages in ratings
Financial Ratios – Non-financial Sector
Liquidity Analysis of Non-financial sector entities
Short Term Instruments
Policy on Withdrawal of Ratings

About the company and industry classification

Macro-Economic Indicator	Sector	Industry	Basic Industry
Energy	Oil, Gas & Consumable Fuels	Petroleum Products	Refineries & Marketing

Incorporated in 1989, Nayara (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 fuel retailing, with over 6,300 operational retail outlets in various parts of India and has plans to further expand its presence in fuel retailing in near to medium term. Nayara sources crude oil primarily from several countries in Middle East and Latin America, while major export destinations include Singapore, the Far East and the Middle East.

Brief Financials (₹ crore)	FY22 (A)	FY23 (A)	Q1FY24 (UA)
Total operating income	93,888	1,17,096	31,052
PBILDT	4,759	17,580	5,266
PAT	1,030	9,592	3,401
Overall gearing (times)	1.87	1.03	0.88
Total Debt/PBILDT	8.55	1.80	NA
Interest coverage (times)	2.67	8.13	9.66

A: Audited UA: Unaudited; NA: Not Applicable; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

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

Covenants of rated instrument / facility: Please refer Annexure-3

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MMYYYY)	Coupon Rate (%)	Maturity Date (DDMM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Debentures-Non Convertible Debentures	INE011A07107	December 16, 2020	8%	December 15, 2025	256.84	CARE AA-; Stable
Debentures-Non Convertible Debentures	INE011A07115	August 13, 2021	8.75%	March 29, 2023	0.00	Withdrawn
Fund-based – LT-Cash Credit		-	-	-	2000.00	CARE AA-; Stable

Name of the Instrument	ISIN	Date of Issuance (DD-MMYYYY)	Coupon Rate (%)	Maturity Date (DDMM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - ST-Bill Discounting/ Bills Purchasing		-	-	-	855.00	CARE A1+
Non-fund-based - LT-Bank Guarantee		-	-	-	4109.69	CARE AA-; Stable
Non-fund-based - ST-BG/LC		-	-	-	14000.00	CARE A1+
Term Loan-Long Term		-	-	March 31, 2039	5182.73	CARE AA-; Stable
Term Loan-Long Term		-	-	March 31, 2039	3477.50	CARE AA-; Stable

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/ Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Non-fund-based - ST-BG/LC	ST	14000.00	CARE A1+	-	1)CARE A1+ (13-Dec-22)	1)CARE A1+ (17-Mar-22) 2)CARE A1+ (05-Mar-22) 3)CARE A1+ (30-Jul-21)	1)CARE A1+ (23-Mar-21) 2)CARE A1+ (11-Aug-20) 3)CARE A1+ (02-Apr-20)
2	Fund-based - LT-Cash Credit	LT	2000.00	CARE AA-; Stable	-	1)CARE AA-; Stable (13-Dec-22)	1)CARE AA- (CW with Developing Implications) (17-Mar-22) 2)CARE AA (CW with Negative Implications) (05-Mar-22) 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)
3	Term Loan-Long Term	LT	5182.73	CARE AA-; Stable	-	1)CARE AA-; Stable (13-Dec-22)	1)CARE AA- (CW with Developing Implications) (17-Mar-22) 2)CARE AA (CW with Negative Implications) (05-Mar-22) 3)CARE AA; Stable (17-Sep-21) 4)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)

Sr. No.	Name of the Instrument/ Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
4	Term Loan-Long Term	LT	3477.50	CARE AA-; Stable	-	1)CARE AA-; Stable (13-Dec-22)	1)CARE AA- (CW with Developing Implications) (17-Mar-22) 2)CARE AA (CW with Negative Implications) (05-Mar-22) 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)
5	Fund-based - ST-Bill Discounting/ Bills Purchasing	ST	855.00	CARE A1+	-	1)CARE A1+ (13-Dec-22)	1)CARE A1+ (17-Mar-22) 2)CARE A1+ (05-Mar-22) 3)CARE A1+ (30-Jul-21)	1)CARE A1+ (23-Mar-21) 2)CARE A1+ (11-Aug-20) 3)CARE A1+ (02-Apr-20)
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)
7	Debentures-Non Convertible Debentures	LT	256.84	CARE AA-; Stable	-	1)CARE AA-; Stable (13-Dec-22)	1)CARE AA- (CW with Developing Implications) (17-Mar-22) 2)CARE AA (CW with Negative Implications) (05-Mar-22)	1)CARE AA; Stable (23-Mar-21) 2)Provisional CARE AA; Stable (11-Aug-20)
8	Debentures-Non Convertible Debentures	LT	-	-	-	1)CARE AA-; Stable (13-Dec-22)	1)CARE AA- (CW with Developing Implications) (17-Mar-22) 2)CARE AA (CW with Negative Implications) (05-Mar-22) 3)CARE AA; Stable (30-Jul-21)	-
9	Non-fund-based - LT-Bank Guarantee	LT	4109.69	CARE AA-; Stable	-	1)CARE AA-; Stable (13-Dec-22)	1)CARE AA- (CW with Developing Implications) (17-Mar-22) 2)CARE AA (CW with	-

Sr. No.	Name of the Instrument/ Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
							Negative Implications) (05-Mar-22)	

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not Applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the 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: Lender details

To view the lender wise details of bank facilities please click here

Note on the complexity levels of the rated instruments: 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@careedge.in for any clarifications.

Contact us

Media Contact	Analytical Contacts
Name: Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in	Name: Ranjan Sharma Senior Director **CARE Ratings Limited** Phone: +91 - 22 - 6754 3453 E-mail: ranjan.sharma@careedge.in
Relationship Contact Name: Saikat Roy Senior Director **CARE Ratings Limited** Phone: +91-22-6754 3404 E-mail: saikat.roy@careedge.in	Name: Hardik Shah Director **CARE Ratings Limited** Phone: +91-22-6754 3591 E-mail: hardik.shah@careedge.in Name: Surabhi Nahar Assistant Director **CARE Ratings Limited** Phone: +91-22-6754 3437 E-mail: surabhi.nahar@careedge.in

About us:

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