Nayara Energy Limited

October 10, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long term bank facilities	13,509.01 (reduced from 14,043.31)	CARE AA-; Stable	Reaffirmed
Short term bank facilities	14,850	CARE A1+	Reaffirmed
Non-convertible debentures	256.84	CARE AA-; Stable	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Ratings assigned to 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), strategic location of its refinery and captive port terminal and power plant, long-term benefits from sizeable and growing presence in fuel retailing and recently commissioned manufacturing of polypropylene. Ratings also derive comfort from healthy throughput and gross refining margins (GRMs) in FY24 (refers to April 01 to March 31) and Q1FY25, resulting in improved financial risk profile underlined by improved capital structure and strong liquidity. Ratings continue to factor risk management systems put in place by Nayara to hedge against fluctuations in currency, crude oil prices and product cracks; while its presence in retail segment provides stability to the company's profitability and mitigate impact of fluctuations in refining segment.

However, rating strengths are tempered by economic sanctions imposed on Rosneft Oil Company (Rosneft; one of the key shareholders of Nayara) amidst ongoing Russia-Ukraine conflict, exposure to fluctuations in fuel cracks, competitive industry scenario and inherent government regulation risk in Indian oil and gas sector. Timely stabilisation and generation of envisaged returns from recently concluded polypropylene project would also be one of the monitorables.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Sustained improvement in business and financial profile of Nayara's shareholder viz. Rosneft.
- Growth in retailing business and economic ramping-up of operations of its petrochemical operations leading to significant improvement in return on capital employed (ROCE) on a sustained basis while continuing to maintain its low leverage and healthy liquidity.
- Nayara's refinery continuing to operate at healthy throughput and GRM levels in a steady state scenario.

Negative factors

- Sustained decline in throughput and GRMs or any adverse impact of geopolitical situation on Nayara's operations.
- Total Debt/PBILDT exceeding 2.5x on a sustained basis.
- Large dividend payout/extension of loans and advances diluting its strong liquidity.

Analytical approach: Standalone

Outlook: Stable

'Stable' outlook on ratings reflects CARE Ratings Limited's (CARE Ratings') expectation that Nayara shall continue to remain a strong player in private sector oil refining business in India with healthy refining margins considering high complexity index of its refinery and integrated operations, which should help it to maintain its strong credit profile.

Detailed description of 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 enabling it to process heavier grades of crude oil, resulting in higher margins compared to low-complexity refineries. The refinery has 20 million metric tonne per annum (MMTPA) capacity, constituting ~8% of India's refining capacity. It can process crude oil with a blend of 15-60 American Petroleum Institute gravity. In FY24, ~95% of the company's processed crude comprised ultra-heavy and heavy grade. In FY24, the company has produced ~89% output in the form of light and middle distillate, which have higher realisations compared to heavy distillate. Since its commencement, the refinery has consistently achieved throughput over its rated capacity of 20 MMTPA, except in the cases of planned shutdown. The company derives over 60% of its sales from domestic market through its retail outlets and sale to domestic oil marketing companies (OMCs) and balance from export markets.

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

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

Advantageous location with a captive port terminal and power plant

Nayara's refinery is 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 and a Single Buoy Mooring (SBM) with a crude oil intake capacity of 27 MMTPA. SBM is capable of handling very large crude carriers (VLCC) and is in the Gulf of Kutch, which also houses SBMs of Indian Oil Corporation and Reliance Industries Limited among others, forming a gateway to ~70% of 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 product off-take of 14 MMTPA each. Nayara also operates a captive power plant within the refinery premises, which is equipped with oil, gas, and coal-fired boilers and turbines capable of generating 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.

Sizable retail business and commencement of polypropylene manufacturing

Nayara has a sizeable and growing presence in fuel retailing, with 6,500+ operational retail outlets as on August 31, 2024. The company also has two rail-fed fuel depots at Wardha (Maharashtra) and Pali (Rajasthan) and hired depots to store its products. The company has a plan to build additional depots, in the medium term, which is expected to result in lower dependency on public sector undertaking (PSU) oil marketing companies (OMCs) for supply of fuels to its retail outlets. The company's retail outlets are operated, primarily through dealer-owned-and-dealer-operated (DODO) model, resulting in minimal capital requirement for its retail outlet expansion plan. The company has recently ventured in the petrochemical segment with commissioning of its 450 KTPA capacity polypropylene plant in July 2024.

Growing presence in the retail segment mitigates adverse impact due to fuel crack volatility in the refining segment to some extent, although retail sector is vulnerable to its inability to pass on sharp increase in crude prices amidst strong competition from PSU oil marketing companies. Nayara is expected to benefit from integrated operations (refining, petrochemicals and retailing), with expected ramp up of polypropylene production and gradually growing retail presence, which is expected to provide stability to its profitability to some extent.

Healthy operational performance in FY24 and Q1FY25

Nayara's refinery continued to operate at over its rated capacity in FY24 and Q1FY25. However, elevated fuel cracks in FY23, primarily due to Russia-Ukraine war, moderated significantly in FY24 and Q1FY25 albeit remained comfortable. Healthy fuel cracks and sourcing of relatively cheaper Russian grade crude aided GRMs of domestic refiners including that of Nayara in FY24 and Q1FY25. In retail segment, healthy retail margins in FY24 and Q1FY25 were supported by largely steady retail prices despite decline in crude prices. Consequently, the company generated PBILDT of ₹19,318 crore and ₹2,702 crore in FY24 and Q1FY25 respectively (₹17,580 crore in FY23).

Improved leverage and debt coverage indicators

Nayara's financial risk profile improved in FY24 and Q1FY25 due to heathy accruals resulting in improved capital structure and debt coverage metrics. Capital structure improved marked by overall gearing (on net debt basis) of 0.43x as on March 31, 2024, compared to 0.75x as on March 31, 2023, due to accretion of healthy profits and low reliance on interest bearing customer advances. Debt coverage metrics also remained healthy marked by net debt/PBILDT of 0.96x in FY24 compared to 1.31x in FY23. Going forward, capital structure is expected to improve gradually despite expected part funding of routine capex through debt. However, any large size debt funded expansion plan will be a key rating monitorable.

Liquidity: Strong

Nayara's strong liquidity derives comfort from cash and cash equivalents of ~₹9,812 crore as on June 30, 2024, and sizable undrawn working capital limits. Nayara's cash accruals are expected to have significant cushion compared to its term debt repayment obligations in the medium term. Significant dilution in existing liquidity will be a key monitorable.

Key weaknesses

Rosneft (one of the key shareholders) under economic sanctions amidst ongoing Russia-Ukraine conflict

Nayara's shareholders comprise Rosneft Singapore Pte Limited and Kesani Enterprises Company Limited (Kesani), a consortium led by Mareterra (replaced Trafigura in January 2023) and United Capital Partners (UCP), 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 investment group with a focus on energy and carbon efficiency infrastructure. Rosneft is currently under economic sanctions, while Kesani has pledged its entire holding in Nayara with VTB Bank, which is also under economic sanctions due to the Russia-Ukraine war.

Rosneft is one of the world's largest oil and gas companies in terms of reserves and production of liquid hydrocarbons. It has ~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 ~3,000 fuel retail outlets in Russia. It owns several oil refineries in key regions of Russia and ownership stakes in refineries outside Russia, and sizable retail sites in Russia and nearby geographies. Nayara benefits from Rosneft's leadership position and expertise in oil and gas sector. In the past, Rosneft had supported Nayara through fund infusion amidst adverse industry scenarios.

UCP Investment Group is one of the largest financial investment groups in Russia. 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 the USA.
Although Nayara's operations have not been impacted by economic sanctions on Russia or Russian entities including Rosneft, economic sanctions on Russia/Russian entities could have an impact on business and financial risk profile of Rosneft. This could limit Rosneft's flexibility to support Nayara in case of requirement.

Exposure to 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 Petroleum Exporting Countries (OPEC) policies, geo-political situation in countries with oil reserves, economic growth and exchange rates among others. Per its policy, Nayara 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. Nayara imports majority of its crude requirements which is denominated in US Dollar. However, the company has natural hedge in the form of exports (~30-40% of total sales). Domestic sales to oil marketing companies are linked to US Dollar, which further mitigates risk.

Competitive industry and regulatory risk
The company faces stiff competition from public sector undertaking (PSU) oil marketing companies, which operates ~90% of 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. The company is exposed to regulatory risk, as interference by Government of India (GoI), may affect its profitability. However, Nayara's sales consist of sizeable exports, which offsets the impact to an extent. GoI has been imposing windfall taxes on export of certain products such as HSD and ATF, however, GOI has also reduced/removed windfall taxes when product margins normalise. Consequently, Nayara's profitability remains sensitive to regulatory interventions.

Applicable criteria

Definition of Default
Rating Outlook and Rating Watch
Manufacturing Companies
Factoring Linkages Parent Sub JV Group
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial Sector Entities
Short Term Instruments

About the company and industry

Industry classification

Macroeconomic 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 engaged in crude oil 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, allowing it to process any kind of crude. Nayara also has a presence in fuel retailing, with 6,500+ operational retail outlets in various parts of India. Nayara has recently commissioned 450 KTPA polypropylene plant in July 2024.

Brief Financials (₹ crore)	FY23 (A)	FY24 (A)	Q1FY25 (UA)
Total operating income	1,17,096	1,32,652	33,045
PBILDT	17,580	19,318	2,702
PAT	9,592	12,085	1,593
Overall gearing (times)	1.03	0.64	0.58
Interest coverage (times)	8.13	9.02	7.20

A: Audited; UA: Unaudited; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Covenants of rated instrument/facility: Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-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
Fund-based - LT-Cash Credit	-	-	-	-	2,000	CARE AA-; Stable
Fund-based - ST-Bill Discounting/ Bills Purchasing	-	-	-	-	850	CARE A1+
Non-fund-based - LT-Bank Guarantee	-	-	-	-	2,022.27	CARE AA-; Stable
Non-fund-based - ST-BG/LC	-	-	-	-	14,000	CARE A1+
Term Loan-Long Term	-	-	-	March 31, 2039	5,470.74	CARE AA-; Stable
Term Loan-Long Term	-	-	-	March 31, 2037	4,016	CARE AA-; Stable

Annexure-2: Rating history for 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 2024-2025	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
1	Non-fund-based - ST-BG/LC	ST	14,000	CARE A1+	-	1)CARE A1+ (19-Mar-24) 2)CARE A1+ (24-Aug-23)	1)CARE A1+ (13-Dec-22)	1)CARE A1+ (17-Mar-22) 2)CARE A1+ (05-Mar-22) 3)CARE A1+ (30-Jul-21)
2	Fund-based - LT-Cash Credit	LT	2,000	CARE AA-; Stable	-	1)CARE AA-; Stable (19-Mar-24) 2)CARE AA-; Stable (24-Aug-23)	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)
3	Term Loan-Long Term	LT	5470.74	CARE AA-; Stable	-	1)CARE AA-; Stable (19-Mar-24) 2)CARE AA-; Stable (24-Aug-23)	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)
4	Term Loan-Long Term	LT	4,016	CARE AA-; Stable	-	1)CARE AA-; Stable (19-Mar-24) 2)CARE AA-; Stable	1)CARE AA-; Stable (13-Dec-22)	1)CARE AA- (CW with Developing Implications) (17-Mar-22)

Sr. No.	Name of the Instrument/ Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	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
						(24-Aug-23)		2)CARE AA (CW with Negative Implications) (05-Mar-22) 3)CARE AA; Stable (30-Jul-21)
5	Fund-based - ST-Bill Discounting/ Bills Purchasing	ST	850	CARE A1+	-	1)CARE A1+ (19-Mar-24) 2)CARE A1+ (24-Aug-23)	1)CARE A1+ (13-Dec-22)	1)CARE A1+ (17-Mar-22) 2)CARE A1+ (05-Mar-22) 3)CARE A1+ (30-Jul-21)
6	Debentures-Non Convertible Debentures	LT	-	-	-	-	-	1)Withdrawn (05-Mar-22)
7	Debentures-Non Convertible Debentures	LT	256.84	CARE AA-; Stable	-	1)CARE AA-; Stable (19-Mar-24) 2)CARE AA-; Stable (24-Aug-23)	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)
8	Debentures-Non Convertible Debentures	LT	-	-	-	1)Withdrawn (24-Aug-23)	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	2022.27	CARE AA-; Stable	-	1)CARE AA-; Stable (19-Mar-24) 2)CARE AA-; Stable (24-Aug-23)	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)

LT: Long term; ST: Short term; LT/ST: Long term/Short term

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

Annexure-4: Complexity level of 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 lender-wise details of bank facilities please click here

Note on complexity levels of rated instruments: CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for 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 **Relationship Contact** Name: Saikat Roy Senior Director **CARE Ratings Limited** Phone: +91-22-6754 3404 E-mail: saikat.roy@careedge.in	Name: Ranjan Sharma Senior Director **CARE Ratings Limited** Phone: +91 - 22 - 6754 3453 E-mail: ranjan.sharma@careedge.in Name: Hardik Shah Director **CARE Ratings Limited** Phone: +91-22-6754 3591 E-mail: hardik.shah@careedge.in Name: Rabin Bihani Associate Director **CARE Ratings Limited** Phone: +91-22-6754 3592 E-mail: rabin.bihani@careedge.in

About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

For detailed Rationale Report and subscription information, please visit www.careedge.in