

March 17, 2023

Shell MRPL Aviation Fuels and Services Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based working capital facilities	150.00	150.00	[ICRA]AA-(Stable) reaffirmed
Short-term non-fund based working capital facilities	15.00	15.00	[ICRA]A1+ reaffirmed
Total	165.00	165.00	

*Instrument details are provided in Annexure-I

Rationale

The reaffirmation of the ratings derives comfort from Shell MRPL Aviation Fuels and Services Limited's (SMRPL) operational benefits due to its strong parentage as it is a joint venture (JV) between Shell Gas B.V. {a step-down subsidiary of Shell Plc, which is rated Aa2 (Stable) by Moody's} and Mangalore Refinery and Petrochemicals Limited {rated [ICRA]AAA(Stable)/[ICRA]A1+}. The ratings note the vast experience of the management and the favourable long-term growth prospects of aviation turbine fuel (ATF) marketing. The low/negative working capital intensity has led to low utilisation of working capital debt and a healthy capital structure as on March 31, 2022 and December 31, 2022. Moreover, the company's liquidity profile remains adequate, supported by unencumbered cash and liquid investments, buffer in working capital limits and minimal capex plans.

The ratings are, however, constrained by the low operating margins of SMRPL's domestic ATF marketing business and the low commission earned on the fuel services provided to domestic airlines for their international flights at airports outside India through the network of Shell Aviation. However, in 9M FY2023, the profits improved sharply on the back of exceptional windfall tax benefits, favourable ATF pricing and inventory gain. While the operating profit is likely to moderate, going forward, the profit generation for the current fiscal is likely to remain healthy.

The ratings also note the intense competition in domestic marketing operations, dominated by established oil marketing public sector undertakings (PSUs). The competition has hampered the company's volume growth and exerted pressure on its margins. Moreover, the margins are exposed to commodity price risk as ATF is a derivative of crude oil and is susceptible to forex risks. Additionally, SMRPL is exposed to the weak credit quality of domestic airline customers, although the risk is partially mitigated by the credit risk mitigation processes and the high priority accorded by domestic airlines for timely payments in overseas operations. ICRA also notes the short-term nature of SMRPL's contracts (1 year). The long-term revenue visibility depends on the timely renewal of the contracts at favourable terms. Nevertheless, the company's long relationship with its customers and SMRPL's track record in the ATF business provides comfort to an extent. ICRA also notes the high dividend payout by the company in the recent past.

The Stable outlook on the [ICRA]AA- rating reflects ICRA's opinion that SMRPL will continue to benefit from the marketing synergy benefits arising from its strong parentage.

Key rating drivers and their description

Credit strengths

Strong parentage and access to global network of Shell Aviation – The company is a 50:50 JV between Shell Gas BV and MRPL. It is involved in the marketing of ATF to domestic and international airlines at domestic airports by procuring ATF from MRPL. It acts as a contracting company to domestic airlines at the international airports, where it provides fuelling services using Shell

Aviation's network and earns a commission, which is a major revenue source. However, the commission rates have moderated, post the revision in July 2018, which resulted in a subdued growth in commission income, despite the increase in volumes.

Favourable long-term domestic business growth prospects – The strong rebound and healthy momentum in domestic passenger traffic and the uptick in international passenger traffic after the resumption of operations are likely to help overall air passenger traffic cross the pre-Covid levels in CY2023. Further, over the last few years, SMRPL has been receiving new contracts and added customers. It is also trying to cater to additional airports, which, if materialises, would lead to additional growth in domestic sales.

Healthy capital structure and liquidity profile – The low/ negative working capital intensity has led to low utilisation of working capital debt and a healthy capital structure as on March 31, 2022 and December 31, 2022. The company does not have any long-term debt and has no major debt-funded capex plan in the near to medium term. SMRPL's unencumbered cash and liquid investments remained healthy at Rs. 223.3 crore as on December 31, 2022, with the improvement in profitability in 9M FY2023.

Credit challenges

Stiff competition in domestic market from oil marketing PSUs – The company has been unable to expand its domestic operations in a sizeable manner across the country due to intense competition from PSUs, which have subdued margins. The profit margin of the domestic operations has also been impacted by the rise in input costs from GST implementation, whereas SMRPL cannot use input tax credits as ATF is not under GST.

Exposure to commodity price, forex risks and credit risks; mitigated to some extent by established risk management systems – The company's operations and profitability remain susceptible to commodity price risks, with ATF prices moving in tandem with the volatility in crude prices. The fluctuation in prices, coupled with the movement in forex rates, exposes SMRPL to the risk of inventory losses in domestic operations and reduction in commission income if ATF prices moderate. It remains exposed to the credit risks associated with domestic airline entities with weak financial profiles. The risks are, however, partly mitigated by its robust risk management systems. In order to hedge its forex risks, SMRPL buys and sells forwards. Further, SMRPL supplies ATF to customers, except one key customer, only against bank guarantees or against cash payments. The credit risk associated with international carriers catering to India is borne by Shell Aviation, which protects SMRPL from any defaults in payments from that end.

Liquidity position: Adequate

The liquidity is expected to remain adequate on the back of a modest capex plans, nil long-term debt repayment obligation, healthy free cash and liquid investment of ~ Rs. 223.3 crore as on December 31, 2022, and unutilised fund-based working capital limits. The company, at present, has sanctioned limits of ~Rs. 333 crore from multiple banks but has board approval to avail only Rs. 150 crore. The utilisation of the board-approved limits stood low at ~ 11% between January 2022 and December 2022. ICRA also notes the high dividend payout by the company in 9M FY2023. Any significant dividend payout in the future could impact its liquidity and net worth position.

Rating sensitivities

Positive factors – The ratings can be upgraded if the company shows a robust improvement in its operating income and profitability, along with a material improvement in the net worth position while maintaining healthy coverage indicators and a comfortable liquidity position on a sustained basis.

Negative factors – SMRPL's ratings may be revised downwards in case of a significant decline in volumes and/or if there is a sustained moderation in profitability or elongation in the receivable cycle over the extended period, which will exert pressure on the liquidity position. Any weakening of linkages between SMRPL and its parents – Shell and MRPL – or moderation in the credit profile of the parents could also exert a negative rating pressure.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Parents: Shell PLC (rated Moody's Aa2 (Stable)) and Mangalore Refinery and Petrochemicals Limited (rated [ICRA]AAA (Stable) / [ICRA]A1+); 50% held by each of the parent. The ratings consider the benefit arising out of the strong parentage, which provides it access to the domestic and global aviation markets and the expected financial support from the parents, should the need arise
Consolidation/Standalone	The rating is based on the company's standalone financial profile.

Note (for analyst reference only):

About the company.

SMRPL is a 50:50 JV between Shell Gas B.V. (Shell), a step-down subsidiary of Shell PLC, the Netherlands, and Mangalore Refinery and Petrochemicals Limited (MRPL). The company was incorporated in March 2008 and its primary business is marketing aviation turbine fuel (ATF) to airlines. It started operations in August 2008. By virtue of the agreement with Shell Aviation, the company acts as a contracting company (CONCO), wherein it provides fuelling services to domestic airlines for their international flights at the airports outside India. It also serves as a delivery company (DELCO), where it sells ATF to international as well as domestic airlines for their operations at Indian airports. At present, SMRPL procures ATF mainly from MRPL, while refuelling services are provided to various domestic and international airlines, primarily in Bengaluru, Goa, Mangalore and Hyderabad. In addition, it supplies ATF to several other smaller airports.

Key financial indicators (audited)

	FY2021	FY2022	9MFY2023*
Operating income	252.4	668.0	1,214.9
PAT	0.8	17.9	63.1
OPBDIT/OI	-0.9%	3.3%	6.4%
PAT/OI	0.3%	2.7%	5.2%
Total outside liabilities/Tangible net worth (times)	3.1	4.6	4.4
Total debt/OPBDIT (times)	-10.5	0.0	0.0
Interest coverage (times)	-0.9	82.9	2,105.2

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore; Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2023)		Chronology of rating history for the past 3 years					
		Amount rated (Rs. crore)	Amount outstanding (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022		Date & rating in FY2021	Date & rating in FY2020	
				March 17, 2023	Mar 23, 2022	Apr 8, 2021	May 4, 2020	July 1, 2019	
1	Fund-based - Working capital Facilities	Long-term	150.0	--	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Negative)	[ICRA]AA-(Negative)	[ICRA]AA-(Negative)
2	Non-fund based - Working capital facilities	Short term	15.0	--	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
3	Commercial paper	Short Term	-	--	-	-	[ICRA]A1+; withdrawn	[ICRA]A1+	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund-based - Working capital facilities	Simple
Non-fund based - Working capital facilities	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund-based limits[^]	-	-	-	150.0	[ICRA]AA-(Stable)
NA	Non-fund based facilities[@]	-	-	-	15.0	[ICRA]A1+

Source: Company; [^] the utilisation of the fund-based limits should not exceed Rs. 150.00 crore at any point of time @ the utilisation of the non-fund-based limits should not exceed Rs. 15.00 crore at any point of time

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis

Not applicable

ANALYST CONTACTS

Sabyasachi Majumdar
+91 124 4545 304
sabyasachi@icraindia.com

Prashant Vasisht
+91 124 4545 322
prashant.vasisht@icraindia.com

Kushal Kumar B
+91 40 45474829
Kushal.kumar@icraindia.com

Sankalpa Mohapatra
+91 40 45474829
sankalpa.mohapatra@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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For more information, visit www.icra.in

ICRA Limited



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



Branches



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