May 24, 2024

Nayara Energy Limited: [ICRA]A1+ assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Commercial paper	200.0	[ICRA]A1+ assigned;
Total	**200.0**	

**Instrument details are provided in Annexure-I*

Rationale

The assigned rating reflects Nayara Energy Limited's (NEL) strategically important position in the refining and marketing business in the Indian energy sector and its strong operational efficiencies. NEL has consistently operated at high utilisation levels with crude throughput above nameplate capacity of 20.0 million metric tonnes per annum (MMTPA), barring the fiscals where planned shutdown was undertaken for refinery maintenance. NEL accounts for 8% of India's total refining capacity and 7% of the total retail outlets in the country as of April 2024. The rating also considers the high complexity of the company's refinery in Vadinar (Gujarat), with a Nelson Complexity Index (NCI) of 11.8, enabling the refinery to process low-cost heavy/ultra-heavy crude oil grades, leading to healthy gross refining margin (GRM) that has been consistently higher than the industry average.

However, NEL's GRM premium over the regional benchmark, by virtue of its advantageous higher discount feedstock sourcing, is likely to taper off in line with international trends, and its overall refining margins will moderate from the highs of FY2023 and FY2024. The rating also considers the strategic coastal location of the refinery, which helps the company save on freight costs for crude oil imports as well as petroleum product exports. The company further benefits from the presence of a captive oil terminal and a 1,010 Mwe captive power plant, providing it with cost advantages.

ICRA, however, notes that the company's profitability would remain vulnerable to the import duty differential, commodity price cycles and forex movements. Nonetheless, the company has a board-approved hedging policy, which largely alleviates the risk associated with pricing and currency movements. The company's operations are also exposed to asset concentration risk due to being a single-location refinery, although the company has insurance policies to cover business interruptions and property damages. Also, its loss-free track record due to robust operational practices offers comfort.

Further, the company's debt protection metrics are likely to moderate from the levels of 9M FY2024. The healthy GRM over the past two years, reduced NEL's working capital requirements, allowing it to steadily reduce its gross borrowings thereby improving debt coverage indicators. NEL plans to commission a 450,000 MTPA petrochemical plant in H1 FY2025, which will result in downstream integration and revenue diversification, apart from providing a boost to the cash flow. Further, in FY2025 and FY2026, NEL has capex plans towards maintenance capex, completion of petrochemical projects, ethanol plants, additional depots and catalyst replacement among others. Any material time or cost overruns in these projects could increase the company's borrowing levels and moderate the credit metrics.

ICRA notes that one of NEL's ultimate shareholders, PJSC Rosneft Oil Company (Rosneft), holding a 49.13% stake, is under sanctions imposed by the US Treasury and the European Union since 2014. The other 49.13% shareholder, Kesani Enterprises Company Ltd (Kesani), is not under sanctions, but it has pledged its shares to Bank VTB, PJSC, which is under sanctions. At present, these sanctions do not apply to NEL. The rating incorporates ICRA's assumption that NEL will not be subjected to the current or future sanctions imposed on its shareholders. Further, given the presence of significant minority shareholders

(24.5% indirect ownership each in NEL, through Kesani, by Hara Capital S.a.r.l. and UCP PE Investments Limited, each of which is non-sanctioned), NEL's rating will not be constrained by the weaker credit profile of the sanctioned Russian shareholder. However, a scenario of extension of sanctions to NEL or significant shareholder distributions which leads to a material deterioration in its credit metrics and liquidity will be a credit negative and a rating sensitivity.

Key rating drivers and their description

Credit strengths

Established track record of NEL in the domestic refining and marketing business – NEL has a dominant and strategically important position in the refining and marketing business in the Indian energy sector. The company accounts for 8% of India's total refining capacity and 7% of total retail outlets in the country as of April 2024.

Efficient refining operations with high capacity utilisation; high degree of refinery complexity – The company's refining operations have remained healthy, with crude throughput consistently above nameplate capacity of 20.0 MMTPA, except planned shutdown for refinery maintenance. In 9M FY2024, the crude throughput is at 15.2 MMTPA (101% Capacity utilisation). Going forward, NEL's capacity utilisation is expected to remain strong barring the fiscals wherein the planned shutdown for maintenance will be undertaken.

NEL's refinery has high complexity with a Nelson Complexity Index of 11.8, implying the refinery's ability to process a wide range of crude oil grades, including low-cost heavy/ultra-heavy grades and producing high quality premium products thereby widening the refinery's GRM. NEL's GRM has been consistently higher than the industry average. However, NEL's GRM premium over the regional benchmark, by virtue of its advantageous higher discount feedstock sourcing, is likely to taper off in line with international trends and its overall refining margins will moderate from highs of FY2023 and FY2024.

Location advantages of being a coastal refinery; cost benefits arising from captive terminal– The company's refinery is located at Vadinar in Gujarat and enjoys proximity to the Kandla port leading to freight cost savings for the import of crude oil and the export of petroleum products. The refinery has a fully integrated set-up with a captive oil storage and handling terminal and a captive power plant, providing various operational advantages. The terminal is an all-weather port located at Deendayal Port Trust and has a 32-meter draft with an intake capacity of 58 MMTPA. It is equipped with one single buoy mooring (SBM) unit, two product jetties, multiple gantries and storage tankers, including the capability of handling very large crude carriers (VLCCs). The company operates a coal-based power plant to fulfil the refinery's power and steam requirements. The terminal as well as the power plants, ensure cost savings for the company.

Credit challenges

Profitability exposed to volatility in crude oil prices, fuel cracks and forex rates, besides the level of import duty differential- Given the nature of the business, the company's profitability would remain vulnerable to the movement in the commodity price cycles and the volatility in crude prices. Further, the company holds large crude inventory and any sharp decline in crude prices would result in inventory losses. Any adverse changes in the import duty on its products would also have an impact on the company's profitability on domestic sales.

Moreover, NEL's profitability is also exposed to forex rates (INR-$) as its business is primarily conducted on dollar terms. However, the company has a board-approved hedging policy in place, whereby it hedges the crack spreads for various distillates on a case-to-case basis and hedges its crude inventory exposure, protecting it from crude price fluctuations during the shipment and storage period. Further, regulatory risks-related to the pricing of sensitive petroleum products and auto fuels remain in an elevated crude oil price environment, negatively impacting the marketing profitability.

Asset concentration risk for being a single-location refinery; partially mitigated by a stable operating track record– The company's operations are exposed to asset concentration risk, owing to its single-location refinery. However, the company has adequate insurance policies to cover any risk related to property damages and business interruptions. Further, the risk is mitigated to a large extent owing to robust operational practices implemented by the company, which has resulted in a loss-free track record of the refinery over the years.

Any adverse impact of shareholders' sanctions on NEL will be a credit negative– ICRA notes that one of NEL's ultimate shareholders (49.13%), PJSC Rosneft Oil Company (Rosneft), is under sanctions imposed by the US Treasury and the European Union since 2014. The other 49.13% shareholder, Kesani Enterprises Company Ltd (Kesani), is not under sanctions but has pledged its shares to Bank VTB, PJSC, which is under sanctions. At present, these sanctions do not apply to NEL. The rating incorporates ICRA's assumption that NEL will not be subjected to the current or future sanctions imposed on its shareholders. Further, given the presence of significant minority shareholders (24.5% indirect ownership each in NEL, through Kesani, by Hara Capital Sarl and UCP PE Investments Limited, each of which is non-sanctioned), NEL's rating will not be constrained by the weaker credit profile of the sanctioned Russian shareholder. However, a scenario of extension of sanctions to NEL or significant shareholder distributions which leads to a material deterioration in its credit metrics and liquidity, will be credit negative as well as a rating sensitivity.

Liquidity position: Adequate

The company has an adequate liquidity profile characterised by sizeable cash, bank balance and liquid investments of Rs. 14,064 crore as on December 31, 2023, and steady cash accruals from operations. Further, the liquidity position is supported by adequate unutilised working capital limits. The company has annual repayment of obligations of Rs. 2,379 crore and Rs. 2,270 crore in FY2025 and FY2026 (including term loans, EPBG[1] and excluding export prepayments), which can be comfortably met through internal accruals. The company has capex plans over the next few years, which are likely to be funded through a mix of internal accruals, cash reserves and debt.

Rating sensitivities

Positive factors – Not applicable.

Negative factors – Factors leading to a downward revision of the rating include sustained deterioration in the GRMs or throughput. Large debt-funded expansions or acquisitions, or significant shareholder distributions, which leads to a material deterioration in its credit metrics will also exert pressure on the rating.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Refining and Marketing
Parent/Group support	Not applicable
Consolidation/Standalone	For arriving at the rating, ICRA has considered the consolidated financials of NEL. As on March 31, 2024, the company had two subsidiaries, which are all enlisted in Annexure-2.

[1] Export performance bank guarantee.

About the company

Nayara Energy Limited (NEL), formerly known as Essar Oil Limited (EOL), was incorporated in 1989. It was renamed as Nayara Energy Limited in May 2018 after it was acquired by the Russian oil major PJSC Rosneft Oil Company, through a subsidiary Rosneft Singapore Pte Limited (49.13% shareholding in NEL), and Kesani Enterprises Company Limited (Kesani, 49.13% shareholding in NEL) in August 2017 for an enterprise value of $12.9 billion. Kesani is a subsidiary of investment consortium Tendril Ventures PTE limited (Tendril), of which Trafigura owned 49.8% stake until January 11, 2023, when it completed the sale of its interest to Hara Capital S.a.r.l, a Luxembourg-incorporated energy investment group (100% subsidiary of Mareterra Group Holding S.r.l.). Tendril's other shareholders include Cyprus based Russian private investment group UCP PE Investments Limited, which owns 49.8% of Tendril and Oil Holdings Limited (0.3% shareholding).

NEL is involved in oil refining and marketing and is the owner of India's second-largest single-location oil refinery (Vadinar, Gujarat), with a capacity of 20 MMTPA (equivalent to ~405,000 barrels per day). This refinery benefits from access to a deep-draft port capable of receiving VLCC tankers. Nayara is also involved in retail marketing of motor spirit and high-speed diesel. It has been ramping up its marketing operations with 6,400+ retail outlets.

Key financial indicators (audited)

NEL Consolidated	FY2022	FY2023	9M FY2024*
Operating income	93,888.8	1,17,386.8	99,237.6
PAT	921.0	9,426.2	9,325.5
OPBDIT/OI	5.3%	15.5%	15.0%
PAT/OI	1.0%	8.0%	9.4%
Total outside liabilities/Tangible net worth (times)	2.8	1.8	1.2
Total debt/OPBDIT (times)	6.4	1.6	NA
Interest coverage (times)	2.7	7.7	8.6

*Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. crore*

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2025)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as on March 31, 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
					May 24, 2024	-	-	-
1	**Commercial paper**	Short term	200.0	--	**[ICRA]A1+**	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Commercial Paper	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	**Commercial Paper**	NA	NA	NA	200.0	[ICRA]A1+

Source: Company; Not placed as on March 31, 2024

Annexure II: List of entities considered for consolidated analysis

Company Name	NEL Ownership	Consolidation Approach
Nayara Energy Limited	100.00% (rated entity)	Full Consolidation
Nayara Energy Singapore Pte Limited	100.00%	Full Consolidation
Coviva Energy Terminals Limited	100.00%	Full Consolidation

Source: NEL annual report FY2023

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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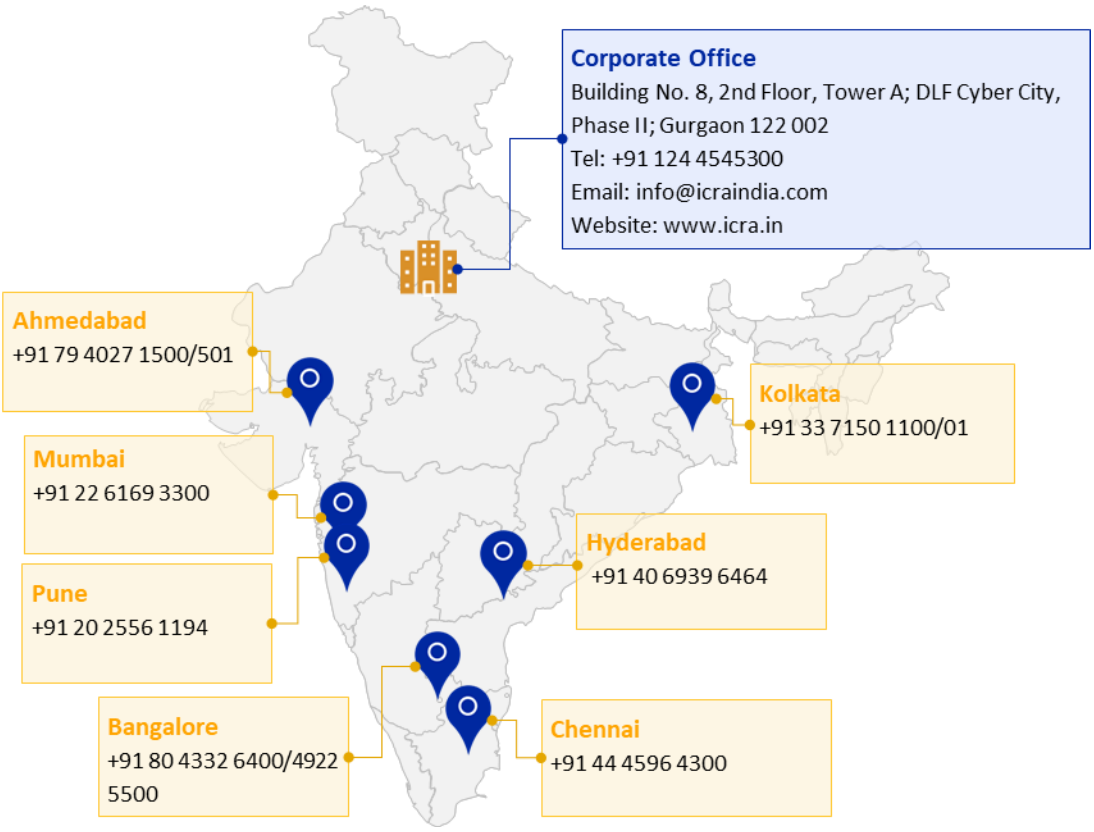

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