June 28, 2024

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/Short term fund-based/non-fund based	0.00	143.00	[ICRA]AA-(Stable)/[ICRA]A1+; reaffirmed
Long term/Short term unallocated	0.00	22.00	[ICRA]AA-(Stable)/[ICRA]A1+; reaffirmed
Short term non-fund based	15.00	0.00	-
Long term fund-based	150.00	0.00	-
Total	**165.0**	**165.0**	

**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, 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 nil utilisation of the fund-based working capital debt and a healthy capital structure as on March 31, 2024. Moreover, the company's liquidity profile remains adequate, supported by healthy unencumbered cash and liquid investments, buffer in working capital limits and minimal capex plans.

ICRA notes a healthy increase in Delco sales volume to 3,35,022 KL in FY2024 (63% YoY growth) from 2,05,628 KL in FY2023, surpassing the pre-Covid levels. The Conco sales volume increased to 6,30,635 KL (58% YoY growth) from 4,00,179 KL in FY2023. Going forward, the Delco volumes are expected to be remain healthy, amid the continued recovery in air passenger traffic.

The ratings are, however, constrained by the muted 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 FY2023, the profits improved sharply on the back of exceptional windfall tax benefits, favourable ATF pricing and inventory gain. The operating profit moderated in FY2024 with reduced/nil windfall tax and moderation in ATF prices.

The ratings also note the intense competition in domestic marketing operations, dominated by established oil marketing public sector undertakings (PSUs). The competition hinders the company's volume growth and exerts 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 SMPRL'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 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. However, the commission rates have moderated, post the revision in July 2018, which has 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 the overall air passenger traffic. Delco sales volume increased to 3,35,022 KL in FY2024 (63% YoY growth) from 2,05,628 KL in FY2023, surpassing the pre-Covid levels. Conco sales volume increased to 6,30,635 KL (58% YoY growth) in FY2024 from 4,00,179 KL in FY2023. Further, over the last few years, SMRPL has been receiving new contracts and has added customers. It is also trying to cater to new 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 nil utilisation of working capital debt for the last 15 months ended March 2024 and a healthy capital structure as on March 31, 2024. The company does not have any long-term debt and has a modest debt-funded capex plan in the near to medium term. SMRPL's unencumbered cash and liquid investments remained robust at Rs. 313.5 crore as on March 31, 2024, with healthy profitability in FY2024.

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. This has kept its margins subdued. The profit margin of 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 reduced commission income if ATF prices moderate. It remains exposed to the credit risks associated with domestic airlines having weak financial profiles. The risks are, however, partly mitigated by SMRPL's robust risk management system. In order to hedge its forex risks, the company 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.

Liquidity position: Adequate

The liquidity is expected to remain adequate on the back of modest capex plans, nil long-term debt repayment obligations, healthy free cash and liquid investment of ~ Rs. 313.5 crore as on March 31, 2024, and unutilised fund-based working capital limits. The company, at present, has sanctioned limits of ~Rs. 283 crore from multiple banks but has board approval to avail only Rs. 150 crore. There was no utilisation of the board-approved limits for the last 15 months ended March 2024. ICRA also notes the high dividend payout by the company in FY2023 and FY2024. 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 an 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 parent. The ratings consider the benefits of a 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 ratings are based on the company's standalone financial profile.

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)

	FY2023	FY2024
Operating income	1619.6	2087.5
PAT	75.2	30.8
OPBDIT/OI	5.6%	0.9%
PAT/OI	4.6%	1.5%
Total outside liabilities/Tangible net worth (times)	3.9	6.4
Total debt/OPBDIT (times)	0.0	0.0
Interest coverage (times)	2198.2	4929.5

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) Type	Amount rated (Rs. crore)	Amount outstanding as on Mar 31,2023 (Rs. crore)	Date & rating in FY2025 Jun 28,2024	Chronology of rating history for the past 3 years: Date & rating in FY2024 -	Date & rating in FY2023 March 17, 2023	Date & rating in FY2022 Mar 23, 2022	Date & rating in FY2022 Apr 08, 2021
1	**Fund based/Non-fund based – Others**	Long Term / Short Term	143.00	-	[ICRA]AA-(Stable)/ [ICRA]A1+				
2	**Unallocated limits**	Long Term / Short Term	22.00	-	[ICRA]AA-(Stable)/ [ICRA]A1+				
3	**Fund-based - Working capital facilities**	Long-term	-	-	-	-	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Negative)
4	**Non-fund based - Working capital facilities**	Short term	-	-	-	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
5	**Commercial paper**	Short Term	-	-	-	-		-	[ICRA]A1+; withdrawn

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term/Short term fund-based/non-fund based	Simple
Long term/Short term unallocated limits	NA

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/Non-fund based- Others**	NA	NA	NA	143.00	[ICRA]AA- (Stable)/ [ICRA]A1+
NA	**Unallocated limits**	NA	NA	NA	22.00	[ICRA]AA- (Stable)/ [ICRA]A1+

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis- Not applicable

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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.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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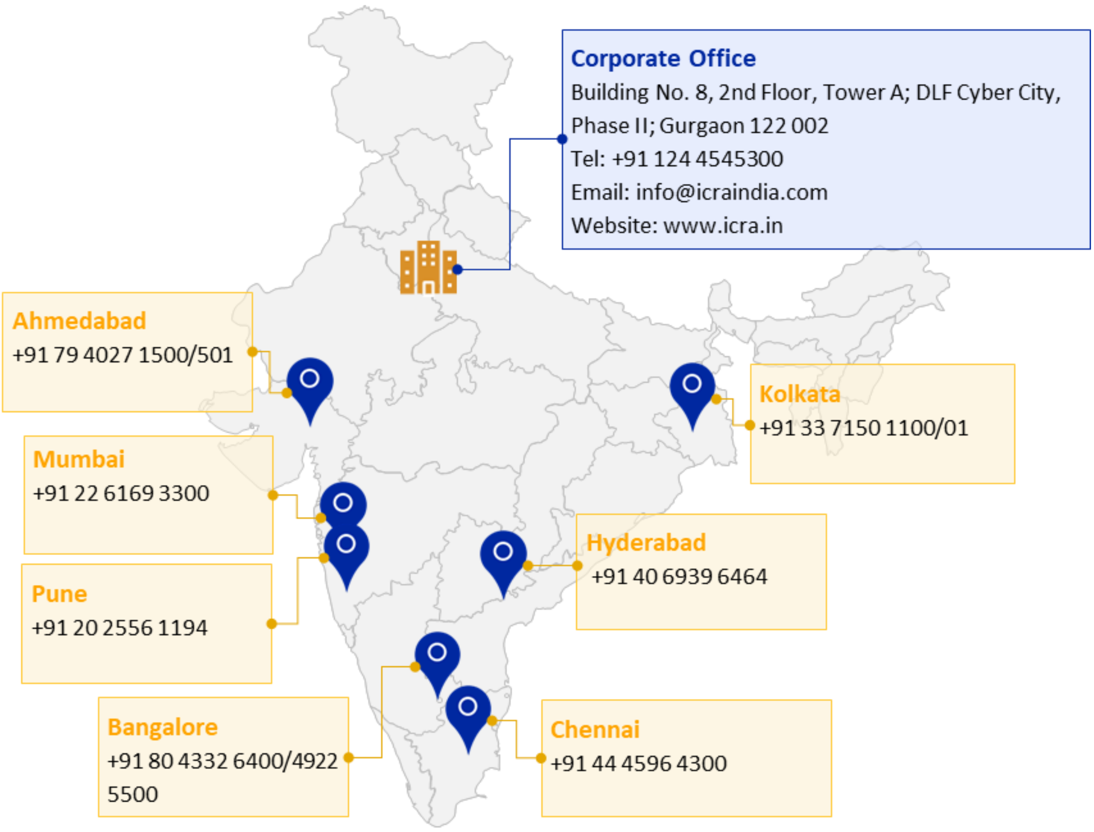

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