

Shell MRPL Aviation Fuels and Services Limited

Instrument	Amount	Rating Action
Fund Based Limits	Rs. 115.00 crore	[ICRA]AA- (stable) reaffirmed
Non-Fund Based Limits	Rs. 15.00 crore	[ICRA]A1+ reaffirmed

ICRA has reaffirmed the long-term rating of [ICRA]AA- (pronounced ICRA double A minus) and the short-term rating of [ICRA]A1+ (pronounced ICRA A one plus) outstanding on the fund based limits and non-fund based limits of Shell MRPL Aviation Fuels and Services Limited (SMRPL) aggregating to Rs. 130.00 crore¹². The outlook on the long-term rating is Stable.

The reaffirmation of ratings takes into account the robust risk management systems and significant marketing synergy benefits arising from the strong parentage of SMRPL by virtue of being a Joint Venture between Shell Gas B.V. (a step down subsidiary of Royal Dutch Shell Plc, Netherlands which is rated Aa2 with a 'Negative outlook' by Moody's) and Mangalore Refinery and Petrochemicals Limited, ([ICRA]AAA (stable) / [ICRA]A1+). The ratings also positively consider the company's demonstrated track record of operations and the favourable growth prospects over the long term for aviation turbine fuel (ATF) marketing. While the marketing margins in the domestic operations continue to remain thin, the company's profitability is aided by the commission earned on fuel services provided to the domestic airlines for their international flights at airports outside India through the network of Shell Aviation, the hedging gains and the interest income arising on surplus cash balances. The ratings also take into account the company's low working capital cycle which has led to low borrowing requirements and a comfortable liquidity position. The company has had negligible bank borrowings in the last two years due to the decline in ATF prices and the tightening of credit period provided to its key customers.

The ratings are however constrained by continued operating losses in the domestic marketing operations due to a highly competitive market dominated by established oil marketing public sector undertakings (PSUs) which has hampered the company's growth in volumes. The ratings are further constrained by the exposure to commodity price risk by virtue of ATF being a derivative of crude oil, and the susceptibility to forex risk. The company's commission income is linked to ATF price levels which have seen a significant decline over the last two years that has resulted in reduction in the company's profits for FY2015 and FY2016. Besides, the company is exposed to weak credit quality of the domestic airline customers, although the risk is partially mitigated through credit risk mitigation processes and high priority accorded by the domestic airlines for timely payment in overseas operations.

Company Profile

Shell MRPL Aviation Fuels and Services Private Limited (SMRPL) is a 50:50 joint venture between Shell Gas B.V. (Shell), a step down subsidiary of Royal Dutch Shell Plc, Netherlands, and Mangalore Refinery and Petrochemicals Limited (MRPL). The company was incorporated in March 2008 and its primary business is marketing of aviation turbine fuel (ATF) to airlines. The company started its 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 the domestic airlines for their international flights at the airports outside India. Similarly, as a delivery company (DELCO), the company sells ATF to the international airlines for their operations at Indian Airports. SMRPL currently procures ATF mainly from MRPL, while re-fuelling services are provided to various domestic and international airlines at primarily Bengaluru, Goa, Mangalore and Hyderabad. In addition, the company also supplies ATF to airports at Calicut, Madurai and Chennai.

In FY2015, the company reported an operating income of Rs. 619.7 crore and Profit after Tax (PAT) of Rs. 7.7 crore. In FY2016, the company reported an operating income of Rs. 318.0 crore and PAT of Rs. 3.8 crore (unaudited).

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¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA's Website www.icra.in or other ICRA Rating Publications



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