Mangalore Refinery and Petrochemicals Limited

May 03, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Commercial Paper	3,000.00	CARE A1+ (A One Plus)	Reaffirmed
Total Short-Term Instruments	**3,000.00 (Rs. Three Thousand Crore Only)**		

Details of instruments/Facilities in Annexure -I

Detailed Rationale & Key Rating Drivers

The reaffirmation to the rating assigned to commercial paper issue of Mangalore Refinery and Petrochemicals Limited (MRPL) factors the strong parentage with 71.63% of its equity held by Oil and Natural Gas Corporation (ONGC, CARE AAA (Stable)/CARE A1+). The rating also takes cognizance of the strategic importance of MRPL in ONGC's portfolio of assets and the managerial and financial support extended by ONGC to MRPL in past. Furthermore, the rating factors in expected operational synergies subsequent to the completion of merger of ONGC Mangalore Refinery Petrochemicals Limited (OMPL). The rating is also underpinned by MRPL's strong asset profile given the superior processing capabilities of its refinery, its experienced management team and its location advantage. The rating strengths are partly offset by its moderate financial profile, exposure to crude oil prices and global refining margins, foreign currency fluctuation risk and project risk associated with the ongoing capex.

<u>Rating Sensitivities</u>

Positive Factors: Not applicable

Negative Factors:

- Any significant changes in shareholding of ONGC or deterioration in the credit profile of ONGC
- Continued adverse pricing scenario leading to losses or higher than expected debt funded capital expenditure plans leading to moderation of the capital structure

Detailed description of the key rating drivers

Key Rating Strengths

Strong parentage and group support

MRPL has a strong parentage with 71.63% of its equity held by ONGC (CARE AAA (Stable)/CARE A1+) and 16.96% by Hindustan Petroleum Corporation Limited (a 'Maharatna' in petroleum refining sector). MRPL is of strategic importance to ONGC, being a key component of ONGC's integrated oil and gas value chain. Besides strategic linkages, there are also strong management linkages between ONGC and MRPL. Mr. Subhash Kumar, Director (Finance) of ONGC with additional charge of Chairman and MD, is also the chairman on the Board of MRPL. MRPL also gets support in terms of managerial expertise from the senior management of ONGC.

Apart from managerial and Board's support, ONGC supports MRPL financially and in past MRPL has received loans from ONGC for undertaking its capex plans at favourable interest rates. MRPL purchases around 10% of its crude oil requirement from ONGC at favourable receivable terms. Furthermore, ONGC has extended guarantee to MRPL's foreign crude oil supplier with respect to the payments of crude purchases.

Experienced management team

The company is being managed by professional and experienced management team which has a relevant experience in the industry. Mr. Subhash Kumar (Chairman of both MRPL and ONGC) is an industry veteran with over 36 years of experience in diverse activities across the Exploration & Production (E&P) value chain. He has played key role in evaluation and acquisition of many overseas assets leading to expansion of ONGC's footprint. He is also a Fellow Member of ICMAI and also Associate Member of ICSI. Mr. M. Venkatesh (Managing Director MRPL) is a Chemical Engineer having over three decades of experience in Oil & Gas Sector. He is associated with MRPL since 1994 and executed all major projects. The senior management is supported by experienced and technically qualified professional in the operations of the company.

Healthy operational profile as indicated by throughput and gross refining margins (GRMs)

MRPL has demonstrated a healthy throughput and capacity utilization during last couple of years. The company has processed 14.14 million metric tonnes (MMT) of crude oil in FY20, thereby registering a capacity utilisation of 94% (Q1FY20: ~68%, Q2FY20: 98%, Q3FY20: 108% and Q4FY20: 102%) as plant operation was affected initially due to water scarcity faced by the refinery complex and later due to landslide. In FY19 and FY18 the company processed 16.43MMT and 16.31MMT of crude oil

respectively, thus posting more than 100% capacity utilization. MRPL's gross refining margin (GRM) has remained volatile and it moderated from US$4.05/bbl in FY19 and US$7.54/bbl in FY18 to US$(0.23)/bbl in FY20 primarily on account of inventory losses during Q4FY20.
In 9MFY21, the company has achieved a throughput of 7.47 million metric tonnes per annum (MMTPA), lower in comparison to the throughput of 10.31 MMTPA in 9MFY20 on account of a lower demand for petroleum products owing to the onset of the COVID 19 pandemic and the ensuing lockdown in Q1FY21, which impacted the capacity utilization. However, with the revival in demand after lifting of the lockdown, the utilization level has improved from 50% in Q1FY21 to 67% in Q2FY21, to 82% in Q3FY21. During 9MFY21, the GRM stood at US$2.25/bbl as against GRM of US$1.41/bbl during 9MFY20. The refinery has a high Nelson Complexity Index of 10.6 which enables it to process heavy oil with high quality.

Location advantages of being a coastal refinery with proximity to port
MRPL is located on the western coast of the country, with its sourcing of crude as well as product exports being handled through the New Mangalore Port Trust. The location of the refinery provides MRPL strategic advantages in terms of sourcing of crude oil, better suitability for export markets and also provides a better reach in the southern part of domestic market.

Key Rating Weaknesses
Moderate financial profile, characterised by high gearing
In FY20, the total operating income of MRPL has declined by 20% to Rs. 50,545 crore from Rs. 63,340 crore in FY19 primarily on account of lower throughput during FY20. The company has achieved a total income of Rs. 18,514 crore during 9MFY21 as against Rs. 36,425 during 9MFY20. The lower income was primarily on account of lower throughput during 9MFY21 which got reduced to 7.47 MMTPA from 10.31 MMTPA during 9MFY20 due to lower demand of petroleum products affected on account of COVID-19. The company has posted loss at PBILDT level of Rs. 3072 crore in FY20 on account of lower GRM affected in Q1FY20 primarily due to scarcity of water and in Q4FY20 on account of inventory losses due to fall in crude oil prices. The company's overall gearing ratio remained high at 2.82x as on Mar 31, 2020 (1.58x as on Mar 31, 2019) on account of increased debt levels which has increased further as the company raised NCD for funding the acquisition of equity shares of OMPL from ONGC (shareholding of 49% in OMPL).
Stake acquisition of OMPL: MRPL has completed the acquisition of 124.7 crore equity shares of OMPL from ONGC (shareholding of 49% in OMPL) at a price of Rs. 9.76/share for a cash consideration of Rs. 1,217 crore increasing the shareholding of MRPL from 51% to 100%. However, the company awaits approval from the Ministry of Corporate Affairs for completion of the merger, which is expected by H1FY22. The proposed merger is expected to create operational synergies and also provide tax advantages with respect to absorption of losses at OMPL. OMPL, a subsidiary of MRPL, was set up for value addition of excess naphtha and aromatic streams available from the MRPL refinery. Consequently, the acquisition of OMPL with MRPL is expected to provide operating synergies in the long run.

Exposure to changes in crude oil prices
MRPL's profitability margins are exposed to sharp movements in the crude oil prices. Prices of crude oil depend on various factors including policies by major producers of crude oil, demand variations, geopolitical situations and market sentiment. The prices of crude oil and refined products are based on international prices and refining margins and governed by global as well as the regional demand-supply scenario. Consequently, refinery players such as MRPL are known to be price takers as they have no control over the two key drivers which are the price of crude and the price of refined products. The operating profits of a refinery are influenced by the crack spread (the difference between the crude price and petroleum product prices) and the inventory gain/loss. A sharp fall in crude oil prices leads to inventory losses for refiners leading to lower GRM thereby impacting their profitability.
After a range-bound couple of years of crude price movement, the crude price (Brent) plummeted sharply by 16% through January 2019 – December 2020, touching a low of USD 19/bbl in April 2020, triggered by a supply glut in the market led by Saudi Arabia and Russia which was further aggravated by a worldwide slump in demand for petroleum products due to COVID19 pandemic. However, crude prices have recovered to the level of around $60/bbl by February 2021 supported by restrained U.S. oil production and deployment of vaccination drives across economies. Despite a pickup, crude oil prices remain uncertain with discovery of new strain of COVID-19 re imposing the lockdown in Europe and other countries thus affecting the demand. It is expected that crude oil prices will remain range bound between USD 49-55/bbl supported by adherence to production cut by OPEC+ group and positive development regarding COVID-19.

Exposure to foreign exchange fluctuation risk
MRPL imports around 80% of the raw material (crude) requirement. It secures its crude supply position by entering into term contracts mainly with national oil companies from various regions. The payment for the import of oil crude is dollar-denominated. MRPL does not hedge its forex exposures and rely primary on its export income to act as natural hedge along with import parity pricing for the domestic sales. The refinery exported 33% of its products in FY20.

Ongoing capex poses project risk

During FY20, MRPL has incurred major capex on the BS-VI upgradation project (total project cost is around Rs. 1800 crore) with around physically completion of 90% and started despatching BS-VI complaint HSD and MS from Q3FY20. Further, in order to mitigate the risk of river water as a single source of water, a desalination plant is being set up with an investment of around Rs. 621 crore. Timely completion of the project without any cost overrun will remain critical as the desalination unit would cut down the risk of plant shut down due to water shortage (as witnessed during Q1FY20) to a large extent.

Liquidity analysis- Adequate

MRPL derives financial flexibility from its parentage of ONGC which provides it easy access to funds at attractive rates. MRPL has a working capital limit of Rs.900 crore with an average working capital utilization of 13%. MRPL is expected to report cash losses during FY21 and consequently would be relying on refinancing of debt. The company has opted for moratorium as per RBI COVID 19 guidelines but the same has now been repaid.

Analytical approach: Consolidated factoring linkages with ONGC. The entities consolidated are provided below:

Name	Type
ONGC Mangalore Petrochemicals Ltd.	Subsidiary
Shell MRPL Aviation Fuels & Services Ltd.	Joint venture

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)
[CARE's Policy on Default Recognition](#)
[Rating Methodology - Consolidation](#)
[Rating Methodology - Factoring linkages in rating](#)
[Rating Methodology - Manufacturing Companies](#)
[Criteria for Short Term Instruments](#)
[Financial ratios – Non-Financial Sector](#)
[Liquidity Analysis-Non-Financial Sector](#)

About the Company

Mangalore Refinery and Petrochemicals Limited (MRPL) is a schedule 'A' Miniratna, Central Public Sector Enterprise (CPSE) under the Ministry of Petroleum & Natural Gas. MRPL is a subsidiary of Oil and Natural Gas Corporation Limited (ONGC; CARE AAA, Stable, CARE A1+) with 71.63% shareholding as on March 31, 2020. Hindustan Petroleum Corporation Limited (a 'Maharatna' in petroleum refining sector,) held 16.96% shareholding as on March 31, 2020. MRPL is standalone refiner and is located in north of Mangaluru city, in Dakshina Kannada District of Karnataka State (India) with a 15.0MMTPA (Million Metric Ton per annum) refinery to process Crudes of various API and thus delivering a variety of quality products such as High Speed Diesel (HSD), Motor spirit, Aviation Turbine Fuel (ATF) etc. Apart from the refinery capacity MRPL has forward integrated into manufacturing of value-added petrochemical product and has a polypropylene plant. MRPL sources its crude oil requirement from India and various national oil companies of exporting countries on term basis and from open market on spot basis. It sells mainly to PSU oil marketing companies (OMCs) and derives around 30-35% of its income through exports. MRPL also has seven retail outlets in Karnataka.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	63,340	50,545
PBILDT	2,578	(3072)
PAT	351	(4039)
Overall gearing (times)	1.58	2.82
Interest coverage (times)	2.43	NM

A: Audited; NM: Not Meaningful

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable.

Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Commercial Paper-Commercial Paper (Carved out)	-	-	-	3000.00	CARE A1+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Commercial Paper-Commercial Paper (Carved out)	ST	3000.00	CARE A1+	-	1)CARE A1+ (15-May-20)	-	-
2.	Debentures-Non Convertible Debentures	LT	5000.00	CARE AAA; Stable	-	1)CARE AAA; Stable (24-Dec-20)	-	-

Annexure 3: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Commercial Paper-Commercial Paper (Carved out)	Simple

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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