Mangalore Refinery and Petrochemicals Limited

July 06, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Non-Convertible Debentures	1,200.00	CARE AAA; Stable	Reaffirmed
Non-Convertible Debentures	2,583.00	CARE AAA; Stable	Reaffirmed
Non-Convertible Debentures	1,217.00	CARE AAA; Stable	Reaffirmed
Commercial Paper (Carved out)*	5,000.00 (Enhanced from 3,000.00)	CARE A1+	Reaffirmed

Details of instruments in **Annexure-1**.
**carved out of working capital limits*

Rationale and key rating drivers

The reaffirmation of the ratings assigned to the debt instruments of Mangalore Refinery and Petrochemicals Limited (MRPL) continue to factor in its strong parentage with 71.63% of its equity held by Oil and Natural Gas Corporation Limited (ONGC, rated CARE AAA; Stable/CARE A1+), the company's strategic importance in ONGC's overall portfolio of hydrocarbon assets along with the managerial and financial support extended to the company by ONGC. Furthermore, the ratings factors operational synergies consequent to the completion of merger of ONGC Mangalore Petrochemicals Limited (OMPL) with it. The ratings are also underpinned by company's strong asset profile given the superior processing capabilities of its refinery as reflected by high nelson complexity index, its experienced management team and favourable location, being close to the port.
However, the ratings strengths are partially offset by the company's exposure to volatility in crude oil prices and crack spreads and the resultant impact on its gross refining margins (GRMs), its moderate capital structure and its susceptibility to inherent regulatory risks.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors: Not Applicable

Negative factors

- Any significant reduction in MRPL's shareholding by ONGC or weakening of the linkages between MRPL and ONGC or deterioration in the credit profile of ONGC
- Higher than expected debt funded capital expenditure plans leading to sustained pressure on the capital structure marked by Total debt/PBIDTL exceeding 5 times.
- Sustained weakening of operational performance, marked by lower throughputs and gross refining margins (GRMs)

Analytical approach: Consolidated along with notching based on linkages with its parent, ONGC (rated CARE AAA; Stable/ CARE A1+). The entities considered in MRPL's consolidated financials are placed in **Annexure 6.**

Outlook: Stable

The 'Stable' outlook on the rating reflects that MRPL shall continue to remain a dominant player in the oil refining business underpinning its strategic importance to ONGC which should help it to maintain its strong credit profile.

Detailed description of the key rating drivers

Key strengths

Strong parentage and support: MRPL has a strong parentage with 71.63% of its equity stake being held by ONGC and 16.96% by ONGC's another subsidiary Hindustan Petroleum Corporation Limited (a 'Maharatna' in petroleum refining sector). The company is of strategic importance to ONGC, being a key component in the downstream segment of its integrated oil and gas value chain. Besides strategic linkages, there are also strong management linkages between the two entities. Mr Arun Kumar Singh, Chairman of ONGC, is also the Chairman on the Board of MRPL. The company also gets support in terms of managerial expertise from the senior management of ONGC. Apart from managerial and Board's support, ONGC has supported the company financially and MRPL has received loans in past for undertaking its capex plans at favourable interest rates. The company purchases around 10-

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

15% of its crude oil requirement from ONGC. Furthermore, ONGC has extended guarantee to one of the foreign crude oil suppliers of the company with respect to the payments of MRPL's crude purchases.

Experienced management team: The company is being managed by professional and experienced management team which has relevant experience in the oil & gas industry. Mr Arun Kumar Singh (Chairman of both MRPL and ONGC) has over 36 years of diversified experience in Oil & Gas industry, in India and abroad. He has been also on board of companies like Bharat Petroleum Corporation Limited, Indraprastha Gas Limited, Petronet LNG Ltd and Bharat Petro Resources Ltd.

Mr. Sanjay Varma (Director-Refinery, Additional Charge as Managing Director) has diversified experience of 34 years in Petroleum Refining, Petrochemicals and Fertilizer sectors. He is associated with MRPL for more than 29 years. The senior management is supported by experienced and technically qualified professional in the operations of the company.

Location advantages of being a coastal refinery with proximity to port, and diversification benefits of erstwhile OMPL: 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 it strategic advantages in terms of sourcing of crude oil, better suitability for export markets and provides a better reach in the southern part of domestic market. During FY23, MRPL sourced around 80% of its crude oil requirement through imports. It also derived around 39% of its revenue from exports during the year. However, it does suffer from asset concentration risk due to single location of its refinery; albeit it has adequate insurance cover. With the merger of OMPL with it, MRPL now has presence in the petrochemical business which is envisaged to lend benefits of forward integration to it.

Healthy throughput and improvement in GRMs: The company's throughput was severely impacted in FY21 due to sharp decrease in demand for petroleum products at the time of covid-19 pandemic induced lockdowns. However, it reported a rebound in throughput during FY22 (refers to the period from April 1 to March 31) to 15.04 million tonnes (MTs) from 11.5 MTs in FY21 and further MRPL registered highest ever throughput of 17.14 MTs in FY23. Accordingly, the capacity utilization (CU) also improved to 100.29% during FY22 from 76.70% during FY21 and further to 114.27% during FY23. On account of improved CU along with higher crude prices, the company reported TOI of Rs.1,08,856 crore during FY23 as against Rs.69,813 crore during FY22. Also, MRPL's GRMs improved to USD 9.88 per barrel in FY23 from USD 8.72 per barrel in FY22 on the back of higher operating GRMs of USD 11.30 per barrel (inventory loss was 1.42 USD per barrel).
The PBILDT margin improved to 7.08% in FY22 (PY:2.23%) and stood at 5.97% during FY23 on the back of improved GRMs. Despite improved GRMs in FY23, PBILDT margin moderated marginally owing to impact of windfall tax.
Furthermore, MRPL's refinery has a high Nelson Complexity Index of 10.6 which enables it to process heavy oil with high quality. It can process crude oil of various API and thus deliver a variety of products such as High-Speed Diesel (HSD), Petrol /Motor spirit (MS), Aviation Turbine Fuel (ATF) etc.

Liquidity: Strong
MRPL derives significant financial flexibility from its parentage of ONGC which provides it easy access to funds at attractive rates. The company has unutilized working capital limit of Rs.6,122 crore as on March 31, 2023. The company is expected to have sufficient accruals to meet its debt repayment obligations during FY23. It has capex requirements of nearly Rs.750 crore and funding of same is expected to be done from external debt only, as indicated by company's management for which it has sufficient gearing headroom.

Key weaknesses
Moderate capital structure: The overall gearing has improved significantly from 3.12x during FY22 to 1.79x during FY23 along with improvement in its debt coverage indicators owing to accretion of profits and lower reliance on working capital borrowings on the back of improved profitability apart from scheduled debt repayments. Albeit improved, its capital structure continues to remain leveraged.
The interest coverage ratio has improved to 5.05x in FY23 (PY:4.08x) while total debt/ GCA improved from 6.42x during FY22 to 3.60x during FY23.

Exposure to fluctuation in crude oil prices: MRPL's profitability margins are exposed to sharp movements in the crude oil prices and the crude oil prices and crack spreads are a function of many dynamic markets and fundamental factors, such as the global demand-supply dynamics, geopolitical stability in countries with oil reserves, Organization of the Petroleum Exporting Countries (OPEC) policies, foreign exchange rates, among others. Consequently, refinery players 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. A sharp fall in crude oil prices leads to inventory losses for refiners leading to lower GRM thereby impacting their profitability. Consequently, MRPL had witnessed negative GRMs in FY20 and lower GRM of USD 3.71 per barrel in FY21, which though improved to USD 8.72 per barrel during FY22 and further to USD 9.88 per barrel during FY23.

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. Currently as a practice, the company does not hedge its forex exposures and relies primarily on its export income to act as natural hedge along with import parity pricing for the domestic sales. MRPL derived around 39% of its sales income from export of products (PY:36%). The company is further exposed to currency fluctuation risk through foreign currency term loans availed by the company.

Regulatory risk: The GoI's policy and decisions with respect to natural gas pricing (APM mechanism), subsidy sharing, windfall taxes, duties, cess, and dividend payments have a significant bearing on MRPL's profitability, cash flows and liquidity position. During elevated prices of crude, the GoI may choose to pass on the fiscal burden via sharing of profits of PSUs through higher fiscal levies, higher dividend declaration or providing discounts to oil marketing companies (OMCs) which has potential to impact the income and accruals of MRPL.
During Q2FY23 and Q3FY23, the GRMs were impacted by the levy of Special Additional Excise Duty (SAED or windfall tax) and Road & Infrastructure Cess (RIC) on the export of high-speed diesel, aviation turbine fuel and petrol.

Environment, social and governance (ESG) risk assessment:

Risk factors	Compliance and action by the company
Environmental	MRPL has installed a 30 MLD Desalination plant at sea coast of Arabic ocean in order to mitigate the risk of river water as a single source of water. Also, it is utilizing Mangalore city treated sewage water to reduce fresh river water conservation. In FY22, 89% of ETP feed flow was recycled and re-used in the refinery and 63.7% of total hazardous and non-hazardous waste was recycled and re-used. MRPL is establishing a bio-diversity park in 41 acres of marshy land where the marshy land is being converted to a full-fledged bio diversity park. MRPL has taken several greenbelt development and compensatory afforestation initiatives to increase its green cover. MRPL was awarded Gold Medal by International Research Institute for Manufacturing (IRIM), for India Green Manufacturing Challenge 2020-21.
Social	Annual Medical Checkup of employees was carried out in compliance with the Rules under Factories Act and Karnataka Factories Rules. 100% health check-up of employees completed as per schedule during FY22. Occupational Health Centre (OHC) with 24X7 availability of Medical Staff is functional. The company's aromatic complex has achieved Zero Loss Time Incident (LTI) for FY22 which is equal to ~15.20 million man hours. Aromatic Complex has also received Prashansha Patra Award (4th position) from National Safety Council –Mumbai in Refinery and Petrochemical Sector (Manufacturing). It has also been audited by British Safety Council- Mumbai for five-star health and safety audit and was scored 87.31% (4 Star) on Health and safety Management system.
Governance	33.33% of the MRPL's board comprises of independent directors. MRPL has formulated various policies which ensure transparency, accountability, disclosures and reporting. Policies on ethics, bribery, corruption, enterprise risk management, CSR, safety, quality, corporate environment, occupational health and safety, energy management and social accountability and sustainable development are in place, in line with the requirement

Applicable criteria

Policy on default recognition
Consolidation
Factoring Linkages Parent Sub JV Group
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Manufacturing Companies

About the company and industry

Industry classification

Macro-Economic Indicator	Sector	Industry	Basis Industry
Energy	Oil, Gas & Consumable Fuels	Petroleum Products	Refineries & Marketing

MRPL is a schedule 'A' Miniratna, Central Public Sector Enterprise (CPSE) under the Ministry of Petroleum & Natural Gas. MRPL is a subsidiary of ONGC with 71.63% shareholding as on March 31, 2023. Further, HPCL held 16.96% shareholding as on March 31, 2023. MRPL is a standalone refiner located in north of Mangaluru city, in Dakshina Kannada District of Karnataka State (India) with a 15.0 MMTPA refinery to process crude oil of various API. Apart from the refinery capacity, the company is also into manufacturing of value-added petrochemical product and has a polypropylene plant. It 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) as well as derives income through exports. The company also has 63 retail outlets in Karnataka and Kerala states at present as on March 31, 2023.

Brief Financials (₹ crore)	FY22 (A)	FY23 (Abridged)
Total operating income	69,813	1,08,856
PBILDT	4,945	6,497
PAT	2,958	2,655
Overall gearing (times)	3.12	1.79
PBILDT Interest coverage (times)	4.08	5.05

A: Audited, Financials are reclassified as per CARE Ratings' standards.
Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years: Please refer to Annexure-2

Covenants of the rated instruments/facilities: Please refer Annexure-3

Complexity level of the various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of Instruments

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Commercial Paper-Commercial Paper (Carved out)*	-	-	-	7-364 days	5,000.00	CARE A1+
Debentures-Non Convertible Debentures	INE103A08043	29-12-2020	6.18	29-12-2025	1,217.00	CARE AAA; Stable
Debentures-Non Convertible Debentures	INE103A08050	29-12-2021	7.48	14-04-2032	1,200.00	CARE AAA; Stable
Debentures-Non Convertible Debentures	Proposed	-	-	-	2,583.00	CARE AAA; Stable

**There is no outstanding CPs as on June 27, 2023*

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Commercial Paper-Commercial Paper (Carved out)	ST	5,000.00	CARE A1+	-	1)CARE A1+ (28-Jul-22)	1)CARE A1+ (29-Jul-21) 2)CARE A1+ (03-May-21)	1)CARE A1+ (15-May-20)
2	Debentures-Non Convertible Debentures	LT	1,217.00	CARE AAA; Stable	-	1)CARE AAA; Stable (28-Jul-22)	1)CARE AAA; Stable (29-Jul-21)	1)CARE AAA; Stable (24-Dec-20)
3	Debentures-Non Convertible Debentures	LT	1,200.00	CARE AAA; Stable	-	1)CARE AAA; Stable (28-Jul-22)	1)CARE AAA; Stable (29-Jul-21)	1)CARE AAA; Stable (24-Dec-20)
4	Debentures-Non Convertible Debentures	LT	2,583.00	CARE AAA; Stable	-	1)CARE AAA; Stable (28-Jul-22)	1)CARE AAA; Stable (29-Jul-21)	1)CARE AAA; Stable (24-Dec-20)

*Long term/Short term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not applicable

Annexure-4: Complexity level of various instruments rated

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

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

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

Annexure 6: List of entities whose financials have been consolidated (As on March 31, 2023)

Name of entity	Type	% of shareholding as on Mar.31, 2023
Shell MRPL Aviation Fuels & Services Ltd.	Joint Venture	50%

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About us:
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