

## ONGC Petro additions Limited

March 21, 2024

Sr. No.	Instruments	Amount (₹ crore)	Ratings <sup>1</sup>	Rating Action
1.	Non-convertible debentures <sup>@</sup>	-	-	Withdrawn
2.	Non-convertible debentures <sup>@</sup>	510.00	CARE AA; Stable	Reaffirmed
3.	Non-convertible debentures <sup>@</sup>	3,930.00	CARE AA; Stable	Reaffirmed
4.	Compulsorily convertible debentures <sup>#</sup>	5,615.00	CARE AAA (CE); Stable	Reaffirmed
5.	Compulsorily convertible debentures <sup>#</sup>	492.00	CARE AAA (CE); Stable	Reaffirmed
6.	Non-convertible debentures <sup>^</sup>	465.50	CARE AAA (CE); Stable	Reaffirmed
7.	Non-convertible debentures <sup>^</sup>	475.00	CARE AAA (CE); Stable	Reaffirmed

Details of instruments in Annexure-1.

<sup>@</sup>Standalone

<sup>#</sup>Backed by credit enhancement (CE) in the form of an irrevocable and unconditional undertaking which is legally enforceable (as per independent legal opinion taken by CARE Ratings), from Oil and Natural Gas Corporation Limited (ONGC; rated 'CARE AAA; Stable/CARE A1+'), to buyout these compulsorily convertible debentures (CCDs) from the investors on exercise of 'put' option and to ensure to service the coupon payment on due date.

<sup>^</sup>CE in the form of a letter of comfort (LoC) from ONGC, which is unconditional, irrevocable, valid and is legally enforceable (as per independent legal opinion taken by CARE Ratings) as well as remain operative until the non-convertible debentures (NCDs) are fully redeemed. The LoC provider (ONGC) shall undertake all reasonable actions to fund the designated accounts at least one business day prior to the due dates (both coupon and principal payment dates).

<b>Unsupported rating</b>	<b>CARE AA [Reaffirmed]</b>
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Note: Unsupported Rating does not factor in the explicit CE.

### Rationale and key rating drivers for the credit-enhanced debt

The rating assigned to the CCDs (Sr. No. 5) of ONGC Petro additions Limited (OPaL) is backed by an irrevocable and unconditional undertaking which is legally enforceable, from ONGC, to buyout the CCDs from the investors prior to the expiry of the 77<sup>th</sup> month from the deemed date of allotment (i.e., March 28, 2018) and a legally enforceable undertaking to ensure the timely funding of the coupon payments.

CARE Ratings Limited (CARE Ratings) notes the modifications made in the terms of the aforementioned CCDs issued by OPaL, with the consent of the investor/debenture trustee and before the put option exercise date. The tenure of the aforementioned CCDs has been extended by 6 months from 72 months to 78 months from the deemed date of allotment. Besides, the CCDs now carry 8.65% p.a. coupon rate payable semi-annually and have conversion date of September 27, 2024. There is no change in the undertaking from ONGC acting as the sponsor to the issue.

The rating assigned to the CCDs (Sr. No. 4) is also backed by an irrevocable and unconditional undertaking which is legally enforceable, from ONGC, to buyout the CCDs from the investors prior to the expiry of the 95<sup>th</sup> month from the deemed date of allotment (i.e., July 02, 2016) and a legally enforceable undertaking to ensure to fund the coupon payments.

For both the CCD issuances, ONGC shall unconditionally and irrevocably ensure to fund the service account for coupon payments, on or before the relevant coupon payment date, in case OPaL is unable to do so.

The rating assigned to the NCDs (Sr. Nos. 6 and 7) is based on the CE in the form of LoC from ONGC, which is unconditional, irrevocable, valid, and is legally enforceable as well as remain operative until the NCDs are fully redeemed. The LoC provider shall undertake all reasonable actions to fund the designated account at least one business day prior to the due date (both coupon and principal payment dates).

CARE Ratings has relied on independent legal opinions, which have opined that the undertakings and LoCs provided by ONGC for the above credit-enhanced debt instruments are unconditional, irrevocable, and legally enforceable.

### Rationale and key rating drivers of ONGC (the CE provider)

The credit profile of ONGC continues to consider its majority ownership by the Government of India (GoI) as well as the company's strategic importance to the GoI, as it plays a key role in the energy security for the country. The ratings further derive comfort from ONGC's dominant position, its experienced and professional management, along with a long track record in the domestic exploration and production (E&P) industry.

Furthermore, the ratings also derive strength from its sound and resilient profitability margins, backed by robust E&P infrastructure and proven technical capabilities with a presence across the hydrocarbon value chain, a presence in downstream activities through

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

subsidiaries, as well as the company's comfortable financial risk profile, marked by low gearing, healthy debt metrics, and a strong liquidity position.

The ratings, however, remain susceptible to the inherent risk related to the E&P business, regulatory risks, geopolitical risk for overseas operations, and the large capital expenditure (capex) requirements to replace reserves.

### **Rationale and key rating drivers of OPaL for the standalone/unsupported ratings**

CARE Ratings withdraws the rating assigned to the standalone NCD (Sr. No. 1) as the same has been fully redeemed on its due date and no dues certificate is issued by concerned debenture trustee.

The ratings assigned to the standalone NCDs (Sr. Nos. 2 to 3)/unsupported ratings of OPaL factor in the approval of the Board of directors (BoD) of ONGC to increase its shareholding in the company from the existing level of 49.36% to around 96% by end-FY24 (refers to the period April 01 to March 31) along with the managerial and financial support provided by ONGC and the operational linkages arising from the long-term supply arrangement of feedstock with ONGC. The ratings also take cognisance of OPaL's 1.1 million metric tonne per annum (MMTPA) integrated petrochemical complex being one of the largest facilities of its kind in India, with its dual-feed cracker providing greater flexibility in feedstock and a higher potential competitiveness, healthy capacity utilisation albeit moderation witnessed in FY23 due to major overhauling.

The ratings are, however, constrained by OPaL's leveraged financial risk profile, marked by high gearing and reliance on the replacement of debt, significant moderation in the financial performance in FY23 and 9MFY24, along with the commoditised nature of the petrochemical business with inherently fluctuating raw material prices as well as finished product prices and the resultant volatility in the operating margin.

### **Rating sensitivities of ONGC (for the credit-enhanced rating): Factors likely to lead to rating actions**

#### **Positive factors**

Not applicable

#### **Negative factors**

- Reduction in the shareholding of the GoI below 51%.
- Higher-than-expected debt-funded capex or acquisition, thereby resulting in a consolidated overall gearing beyond 1.0x.
- Sustained decrease in the reserve replacement ratio below 1.0x.

### **Rating sensitivities of OPaL (for the standalone rating): Factors likely to lead to rating actions**

#### **Positive factors:**

- Sustained improvement in the profit before interest, lease rentals, depreciation and taxation (PBILDT) margin to above 25% with a capacity utilisation level above 90%.
- Improvement in its overall gearing to below unity along with improvement in its debt coverage indicators.
- Completion of the proposed capital restructuring of OPaL, which has been approved by the BoD of ONGC.

#### **Negative factors**

- Significant delay in completion of its capital restructuring beyond March 31, 2024.
- Weakening in the credit profile of ONGC and any subsequent decline in the stake of, or institutional support from, ONGC.
- Lower-than-expected operational efficiency, leading to a sustained deterioration in the PBILDT margin below 10%.

### **Analytical approach for ONGC: Consolidated**

The consolidated financials of ONGC have been considered with notching based on parentage of the GoI and strategic importance of the company for GoI. The list of companies considered in the consolidation is in **Annexure-6**. Furthermore, the debt of ONGC's joint venture (JV) company, viz., OPaL has also been considered in the analysis, whereby, ONGC has extended its LoC and undertaking for the NCD as well as CCDs issues of OPaL.

### **Outlook for ONGC: Stable**

CARE Ratings believes that ONGC would continue to maintain its dominant position in the domestic E&P industry along with maintaining its comfortable financial risk profile. Moreover, it shall continue to remain strategically important to the GoI.

## Detailed description of the key rating drivers of ONGC

### Key strengths

#### Strong parentage and strategic importance to the GOI

ONGC, a Maharatna public sector undertaking (PSU), was set up by the GoI in 1956 to plan, promote, and implement programmes for the development of petroleum resources and the production and sale of petroleum and petroleum products. ONGC has significant sovereign ownership, with the GoI holding 58.89% stake in the company as on December 31, 2023. ONGC continues to be of high strategic importance for the GoI, as it is the largest oil and gas company of India that is present across the hydrocarbon value chain, and accordingly, has a crucial role in the implementation of policies of the GoI in India's oil and gas sector. ONGC's importance to the GoI is further supported on account of the significant taxes and dividends paid by it to the exchequer.

#### Experienced management

ONGC is managed by an experienced team of management. Mr. Arun Kumar Singh, the Chairman of ONGC, has over 37 years of experience in the oil and gas industry in India as well as abroad. Before assuming the charge as Chairman at ONGC, he was the Chairman and Managing Director of Bharat Petroleum Corporation Limited (BPCL; rated 'CARE AAA; Stable/CARE A1+'). Mr. Om Prakash Singh, Director-Technology & Field Services, is a mechanical engineer with more than 34 years of experience; he has built a deep industry understanding and has a proven management experience across the technical and commercial roles which he undertook during his career. Mr. Pankaj Kumar, Director- Production has extensive 35-year of experience in the oil & gas sector encompassing multifaceted expertise in operations management, well engineering, joint venture management, corporate strategy, and asset management. Ms Sushma Rawat, Director-Exploration, is a postgraduate in geology, with more than 33 years of industry experience. Mr. Manish Patil, Director- Human Resources, has over 30 years' experience in operations & supplies, information systems, and HR management services.

#### Dominant market position backed by large crude oil reserves

India's largest oil and gas E&P company – ONGC, has had a dominant position historically and continues to maintain its position even after the New Exploration and Licensing Policy (NELP), and thereafter, the Hydrocarbon Exploration and Licensing Policy (HELP), which increased private participation in the oil and gas sector of the country. The company has a share of nearly 68% in India's total production of crude oil and natural gas (including share of JVs). It is also a significant producer of value-added products such as liquefied petroleum gas (LPG), superior kerosene oil (SKO) naphtha, ethane, propane, C2/C3, etc.

The company has the largest proven reserves in India, discovered over the past six decades since its inception. The large reserves base provides the company an abundant and stable long-term source of hydrocarbons for crude oil and natural gas production. In FY23, the company added 40.62 million metric tonne oil equivalent (MMTOE) reserves (2P) on a standalone basis. The company's 2P reserves as on March 31, 2023, stood at around 716 MMTOE on a standalone basis and at around 730 MMTOE on a consolidated basis. Thus, the company had a reserve replacement ratio (RRR) of 1.01x during FY23, which has remained at/above unity for the 17th consecutive year, thereby reflecting ONGC's strong exploratory capability and healthy long-term revenue visibility.

The company has explored 19 of the country's 26 sedimentary basins for its hydrocarbon potential, having established eight producing basins up to date. It has 1.62 lakh square kilometres (sq. km) of acreage and has plans to increase it to 5 lakh sq. km by 2025. Furthermore, the iconic ONGC 'Sagar Samrat' offshore drilling rig was officially inaugurated as a mobile offshore production unit (MOPU) on December 23, 2022. Also, ONGC commenced its first oil production from KG-DWN 98/2 block in the Krishna Godavari Basin in January, 2024 and the said block is expected to increase ONGC's total production of oil and natural gas by 11% and 15% respectively. Hence, CARE Ratings expects ONGC's production level to increase, going forward.

#### Robust infrastructure and proven technical capabilities

The oil and gas industry is capital-intensive industry, which requires significant time and funds to develop a sound infrastructure. With its long track record of operations, ONGC has been able to develop a robust infrastructure, providing it an advantage over newer players in the industry who entered the industry through NELP and HELP. The company has developed significant onshore and offshore production facilities, subsea and land pipelines, gas processing, drilling and work-over rigs, storage facilities, well stimulation units, automated hydraulic workover rigs, and other infrastructure located throughout the principal oil and gas producing regions of India. During FY23, ONGC drilled a total of 461 wells. During the year, 85 exploratory wells were drilled (PY: 78), of which 54 wells were concluded, and from the concluded wells, 30 wells were proved to be hydrocarbon bearing. Besides, 23 wells of the previous years were concluded, of which 16 wells proved to be hydrocarbon bearing.

**Presence across the hydrocarbon value chain**

With its four direct subsidiaries, six JVs, and three associates, ONGC is present across the hydrocarbon value chain with operations in refining, petrochemicals, power, and liquefied natural gas (LNG), in addition to its E&P activities. The company has forward integrated into downstream refining and marketing operations in India through successive acquisitions of Mangalore Refinery and Petrochemicals Ltd (MRPL; rated 'CARE AAA; Stable/CARE A1+') and Hindustan Petroleum Corporation Limited (HPCL). Around 84% of the revenue of ONGC (consolidated) is from the refining and marketing segment in FY23 (PY: 83%).

**Sizeable scale of operations and resilient profitability margins**

The consolidated total operating income (TOI) of the company improved by around 29% y-o-y during FY23 to ₹684,366 crore in FY23. However, the operating profitability moderated by around 400 bps on a year-on-year basis mainly due to the losses reported in the marketing segment. The profit after tax (PAT) margin during FY23 also moderated, mainly due to the provision towards service tax or the Goods and Service Tax (GST) on royalty. However, the company has applied for tax benefits for GST on royalty provisioning.

During 9MFY24, ONGC, on a consolidated basis, reported a significantly higher operating profitability at around 17%, primarily due to the strong marketing segment performance. Going forward, CARE Ratings expects profitability to moderate yet remain healthy, with normalisation in the marketing margins as well as the impact of government regulations such as imposition of windfall taxes.

**Liquidity: Strong**

The liquidity of ONGC remained strong, with a free cash and bank balance of around ₹45,600 crore as on September 30, 2023. Furthermore, ONGC has been utilising its fund-based limits of around ₹10,000 crore very sparingly. The company has envisaged to earn healthy cash accruals of around ₹60,000-70,000 crore annually against the scheduled term debt repayments of around ₹30,000-35,000 crore in FY24 and FY25. Furthermore, ONGC's board has recently approved the implementation of sustainable capital restructuring of OPaL wherein ONGC is expected to invest around ₹18,000 crore in OPaL. The timeline for restructuring is expected to be March 31, 2024, as board approvals are subject to the approval of the GoI and/or the approval of shareholders. ONGC also derives financial flexibility from its low gearing ratio and the parentage of GoI, apart from its dominant market position, which provides it easy access to funds at attractive rates, which aids the funding of its large capex partially through debt.

**Key weaknesses****Risk related to the E&P business and volatile crude oil prices**

In addition to a highly capital-intensive activity, the E&P business has a long gestation period. The exploration activity involves high uncertainty with respect to the estimation of reserves, as it is a function of the quality of the available data engineering and geological interpretation.

Furthermore, the company is also exposed to commodity price risk. Although ONGC as a group is an integrated player in the oil and gas industry, any decrease in the price of crude oil may hamper the profitability of the company, as it derives majority of its own revenue from the sale of crude oil and natural gas. The price of international crude oil is a function of many dynamic markets and fundamental factors, such as the global demand-supply dynamics, geo-political stability in countries with oil reserves, the Organization of the Petroleum Exporting Countries (OPEC) policies, foreign exchange rates, among other prices of crude and policy level changes. Going forward, the operating margins are expected to remain range bound due to the introduction of windfall tax on crude oil by the GoI.

**Geo-political risk associated with international venture**

ONGC is exposed to geopolitical risk owing to its subsidiary, viz., ONGC Videsh Limited (OVL; rated 'CARE AAA; Stable/CARE A1+'). OVL undertakes exploration and production activities mainly in the Commonwealth of Independent States (CIS) and countries in the Middle East and North Africa (MENA) region. OVL has 32 projects in 15 countries and ONGC's investments in OVL are prone to changes in the policy regime, fiscal law changes, etc, since some of the countries have a history of unstable regimes. Unstable government or unfavourable policies, such as resource nationalisation, adds to the geopolitical risks in the host countries.

**Large capex requirements**

During the past couple of years ended FY23, the average capex of ONGC (standalone) per annum has been in the range of ₹30,000 crore, with about 25% expenditure on development drilling, about 20% expenditure on exploration drilling, about 43% expenditure on capital projects, and the balance about 12% on surveys, research and development (R&D), integration and JVs. The same trend is expected to continue in the ensuing years.

The large capex requirements and long gestation periods of E&P projects have a bearing on the company's return indicators, although it has a sound financial position to fund its capex requirements.

### 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 ONGC's profitability, cash flows, and liquidity position. During elevated prices of crude, the GoI may choose to pass on the fiscal burden via the sharing of profits of PSUs through higher fiscal levies, higher dividend declaration, or providing discounts to oil marketing companies (OMCs), which may impact the income and accruals of ONGC. As seen in the recent past (starting July 2022), the GoI has been imposing the Special Additional Excise Duty (SAED) on the production of crude oil, and export of motor spirit (MS), high speed diesel (HSD) and aviation turbine fuel (ATF), which underscores the susceptibility of the financial risk profiles of companies like ONGC to government interventions. However, such tax incidences are likely to be self-correcting in nature if the product margins normalise.

### Environment, social and governance (ESG) risk assessment of ONGC:

Risk factors	Compliance and action by the company
<b>Environmental</b>	<ul style="list-style-type: none"> <li>The company undertakes regular greenhouse gas (GHG) inventory accounting and disclosures on Scope-1 and Scope-2 emissions. ONGC has lowered its Scope-1 and Scope-2 emissions by 17% in the past five years.</li> <li>The company has implemented 15 clean development mechanism (CDM) projects, including 2.2 million certified emission reductions with ONGC Tripura Power Company Limited (OTPC), having an emission reduction potential of 16 lakh tonne CO<sub>2</sub>e per annum and three new projects are under validation.</li> <li>ONGC's operations, including crude oil extraction, natural gas exploration and production activities are highly water-intensive. The company has significantly invested in sustainable water management practices over the past decade to effectively recycle and reuse treated water. During FY23, ONGC has recycled/ reused 49.80% of wastewater, while its subsidiaries/ JVs namely, MRPL, OVL, OPaL, and OTPC recycled/ reused 69%, 98%, 80.10%, and 16.20% of wastewater, respectively, during FY23.</li> <li>During FY23, about 93,151 MT oil contaminated soil or oily sludge was bio-remediated across ONGC.</li> <li>ONGC undertakes environmental impact assessment (EIA) studies prior to the commencement of its operations and funds are earmarked for biodiversity conservation under the Environment Management Plan.</li> <li>Global Methane Initiative – ONGC was the first non-American company to undertake the detection of methane leak through procured high tech equipment. During FY23, a leak detection survey was carried out in the Hazira and Uran plants.</li> <li>Air quality control – Regular ambient air quality monitoring studies are carried out along drilling sites, production installations, and plants. Concentrations are maintained below permissible limits.</li> </ul>
<b>Social</b>	<ul style="list-style-type: none"> <li>Community engagement – The company has been implementing corporate social responsibility (CSR) projects in 26 work centres to assess and provide for the needs of the community around its operational areas.</li> <li>The company has taken around 1,175 CSR projects, wherein there were 23 lakh beneficiaries during FY23.</li> <li>The company contributed ₹100 crore to the Prime Minister Cares Fund and ONGC has been conferred with the Swachhta Pakhwada Award 2022 for spending more than ₹10 million for FY23 for furthering the Prime Minister's vision of <i>Swachh Bharat</i>.</li> <li>The average CSR spend by ONGC is around ₹5 billion per annum and the average CSR spend in the last five years ended FY23 was ₹7 billion per annum.</li> </ul>
<b>Governance</b>	<ul style="list-style-type: none"> <li>ONGC is the first signatory in India to the Integrity Pact. The Integrity Pact envisages a panel of independent external monitors (IEMs) approved for the organisation. The IEM is to review independently and objectively, whether and to what extent parties have complied with their obligations under the Pact, and it has right of access to all project documentation.</li> <li>In compliance with Section 177(8) of the Companies Act, 2013 &amp; Regulation 18 of the Securities and Exchange Board of India (SEBI) (Listing Obligations and Disclosure Requirements) Regulations, 2015 and DPE Guidelines on Corporate Governance, 2010, the details regarding the audit committee are provided in the Corporate Governance Report, which forms part of the</li> </ul>



Risk factors	Compliance and action by the company
	<p>Annual Report. There was no instance during FY23 when the board had not accepted any recommendation of the Audit Committee.</p> <ul style="list-style-type: none"> <li>The company has established a whistleblower policy/vigil mechanism, a dedicated vigilance department headed by the CVO, who holds the rank of a functional director and reports to the CVC, GoI, to report genuine concerns about ethical behaviour, actual or suspected fraud, violation of the Code of Conduct, and also instances of leak of unpublished price sensitive information.</li> </ul>

### Analytical approach for OPaL

**Credit-enhanced rating:** The assessment of the guarantor, i.e., ONGC. The rating is based on credit enhancement in the form of an irrevocable and unconditional undertaking from ONGC to buyout the CCDs from the investors on exercise of 'put' option as well as the credit enhancement for the NCDs in the form of an irrevocable, unconditional and legally enforceable LoC from ONGC, wherein, ONGC shall undertake all reasonable actions to fund the designated account at least one business day prior to the due date (both coupon and principal payment dates).

For ONGC, CARE Ratings has adopted a consolidated analytical approach with notching based on the linkages with the GoI, as it is of strategic importance to the GoI. Furthermore, the debt of OPaL has been considered in the analysis, whereby, ONGC has extended its LoC and undertaking for various NCD and CCD issuances of OPaL.

**Standalone/Unsupported rating:** Standalone, along with factoring in linkages with its parent company, ONGC.

### Outlook for OPaL: Stable

CARE Ratings expects that OPaL, being strategically important to ONGC shall continue to receive need-based support from ONGC and its capital structure would improve significantly upon the completion of the proposed capital restructuring plan.

### Detailed description of the key rating drivers of OPaL for the standalone rating

#### Key strengths

#### **Strong linkages with ONGC – parentage, strategic importance, operational linkages and financial support**

OPaL derives significant managerial, operational, and financial benefits from its key Maharatna public sector undertaking (PSU) promoter, viz., ONGC. As on December 31, 2023, ONGC, GAIL (India) Limited (GAIL), and Gujarat State Petroleum Corporation (GSPC) held 49.36%, 49.21%, and 1.43% of equity share capital in OPaL, respectively.

The Chairman of ONGC is also the Chairman of OPaL. Furthermore, two members on the board of OPaL are common between OPaL and ONGC. Thus, ONGC has the highest representation on the board of OPaL, with three out of nine members being from ONGC.

In addition, there exists significant operational synergies between the company and ONGC, which supplies feedstock, i.e., naphtha from Hazira and Uran as well as ethane (C2)/ propane (C3)/ butane (C4) from Dahej, as OPaL has a supply arrangement with ONGC for 15 years, ensuring consistent feedstock supply. Moreover, ONGC's management has articulated that OPaL is strategically important for ONGC as a part of its forward integration strategy, i.e., diversification into petrochemicals. Also, ONGC has shared its name with OPaL. Furthermore, GAIL and GSPC supply natural gas to the company.

In addition, the company derives financial flexibility from its parentage of ONGC, which provides it easy access to funds at attractive rates. The significance of the company for ONGC and the latter's support is further evident from the LoC given by ONGC for various series of NCDs issued by OPaL along with the unconditional and irrevocable mandatory 'put' option at the end of the tenure of the CCDs issued by OPaL. In addition to this, ONGC's board has approved the capital restructuring of OPaL in September, 2023, whereby, ONGC's stake shall increase to about 96%, led by a conversion of the share warrants issued by OPaL and subscribed by ONGC into equity shares, the buy-back of CCDs by ONGC, and balance investment of about ₹10,500 crore by ONGC in the equity or quasi-equity of OPaL subject to Government and/or shareholder's approval. Post implementation of the proposed restructuring plan, OPaL would become a subsidiary of ONGC.

#### **Healthy capacity utilisation over the past three years, albeit moderation witnessed during FY23**

During FY23, OPaL's petrochemical complex had undergone a major overhauling process. The same was undertaken in the months of April and May 2022, and hence, the capacity utilisation reduced from 95% in FY22 to 82% in FY23. Barring the months of April and May 2022, the plant operated at an average capacity of 95%. Furthermore, during H1FY24, the company undertook maintenance shutdown for around 10 days in phased manner due to certain operational issues, leading to capacity utilisation of about 90% during H1FY24.

However, as indicated by the company's management, currently, the plant is running at a capacity of 98-104% and the utilisation is expected to remain healthy for the remaining part of the year.

**Liquidity: Adequate**

The liquidity profile of OPaL draws comfort from the considerable financial flexibility enjoyed by it due to its parentage of ONGC, which facilitates easy access of funds at relatively attractive rates. Furthermore, the average utilisation of its fund-based working capital limits for the last 12 months ended July 31, 2023, stood at about 60%, which also provides some cushion. Furthermore, it does not have any major capex plan in FY24.

Moreover, need-based support is expected to be extended by ONGC, as articulated by its management.

**Key weaknesses****Significant moderation in profitability during FY23 and 9MFY24**

OPaL's operating profitability moderated significantly from 15.85% during FY22 to 3.21% during FY23, owing to a major turnaround activity undertaken by the company during April-May 2022 leading to expense of ₹ 454 crore and impacting its capacity utilisation during Q1FY23, a decrease in the supply of natural gas from ONGC post increase in the domestic gas allocation to city gas distribution (CGD) companies, along with an increase in spot gas prices, and the continuation of operations in a special economic zone (SEZ), leading to high custom duty payments for sales in a domestic tariff area and reduced polymer spreads.

Furthermore, during 9MFY24 also, the company incurred operating loss of ₹456 crore, owing to lower sales realization of its products in view of subdued global demand and slow correction in naphtha prices. CARE Ratings expects the company's operating profitability to improve from FY25 onwards, led by a expected reduction in natural gas and naphtha prices, an improvement in product cracks, and the benefits accruing from exiting the SEZ. Moreover, OPaL is in talks with ONGC for the supply of feedstock and shall also procure feedstock from the market, which is readily available to fulfil its requirement, thereby ensuring continued and assured supply of feedstock.

**Leveraged financial risk profile, however, capital restructuring already underway**

Historically, the debt of the company has remained on the higher side, owing to the debt-funded project undertaken by it and the increased project cost which led to certain delays in project implementation. Post commissioning too, due to low utilisation levels, initially, the company reported continued losses, which consequentially increased its working capital requirement, leading to a further increase in its debt levels. Due to the high interest burden, coupled with the erosion in net worth led by continued losses, the overall gearing of the company increased to 44.02x during FY23.

However, the BoD of ONGC, on September 01, 2023, has approved the implementation of sustainable capital restructuring of OPaL, wherein, share warrants issued by OPaL and subscribed by ONGC shall be converted into equity shares upon the payment of ₹86.281 crore as final call money and CCDs of ₹7,778 crore shall be bought back by ONGC. Furthermore, the BoD has also approved an investment of ₹10,501 crore by ONGC in the equity or quasi-equity of OPaL. Post implementation of the aforementioned steps, ONGC's shareholding in OPaL shall increase from 49.36% to about 96%, subject to valuation and the mode of investments, making OPaL a subsidiary of ONGC, which shall result in significant improvement in its capital structure. The timeline for restructuring is expected to be end-FY24, as board approvals are subject to the approval of the GoI and/or the approval of shareholders.

The timely capital restructuring of OPaL shall be a key rating monitorable.

**Commoditised and inherently volatile nature of the petrochemical business**

OPaL derives the majority of its revenue from the sale of linear low-density polyethylene (LLDPE), high-density polyethylene (HDPE), and polypropylene (PP), while the major feedstocks include naphtha and ethane (C2). The prices of the finished goods as well as the feedstock, and the derived petrochemical margins, have demonstrated significant volatility in the past, thereby impacting the company's operating margins. As for other polymer manufacturers, the company's operating margins and returns are likely to remain susceptible to such sharp changes in the prices of feedstock and finished products.

## Applicable criteria

[Policy on default recognition](#)  
[Rating Outlook and Credit Watch](#)  
[Consolidation](#)  
[Manufacturing Companies](#)  
[Factoring Linkages Government Support](#)  
[Factoring Linkages Parent Sub JV Group](#)  
[Financial Ratios – Non financial Sector](#)  
[Liquidity Analysis of Non-financial sector entities](#)  
[Rating Credit Enhanced Debt](#)  
[Short Term Instruments](#)  
[Policy on Withdrawal of Ratings](#)

## Adequacy of credit enhancement structure:

In case of CCDs at Sr. No. 4 and 5, the undertaking from ONGC is irrevocable, unconditional and legally enforceable to buyout these CCDs from the investors on exercise of 'put' option and to ensure to service the coupon payment on due date.

In case of NCDs at Sr. No. 6 and 7, the letter of comfort from ONGC is unconditional, irrevocable, valid and is legally enforceable as well as remain operative until the NCDs are fully redeemed. ONGC shall undertake all reasonable actions to fund the designated accounts at least one business day prior to the due dates (both coupon and principal payment dates).

## About the company and industry (CE provider: ONGC)

### Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Energy	Oil, gas & consumable fuels	Oil	Oil exploration & production

ONGC is a Maharatna PSU, with the GoI holding 58.89% stake in the company as on September 30, 2023. ONGC is India's largest E&P player and is present across the hydrocarbon value chain. ONGC's domestic production, including its share of production in fields operated through JVs, represented nearly 68% of India's total production of crude oil and natural gas. It is also a significant producer of value-added products, such as LPG, SKO, naphtha, and C2/C3. The company undertakes E&P activities in 15 countries, such as Azerbaijan, Myanmar, Vietnam, Iran, Iraq, Syria, the UAE, Libya, Mozambique, South Sudan, etc, through its wholly-owned subsidiary, OVL. Also, it has integrated downstream activities in India with two subsidiaries, viz., MRPL and HPCL with a combined capacity of over a 39.50 million metric tonne per annum (MMTPA) refinery and an extensive network of over 20,000 retail outlets. The company is currently the top lube marketer and the second-largest marketer in LPG sales in India. The presence in the refining and marketing segment helps ONGC limit the volatility of earnings. Besides, the transportation of petroleum products is being catered through Petronet MHB Ltd (PMHBL), which owns and operates a multi-product petroleum pipeline to transport MRPL's refinery products to various parts of Karnataka.

Brief Financials (₹ crore)-Consolidated	FY22 (A)	FY23 (A)	9MFY24 (UA)
Total operating income	5,32,095	6,84,366	4,76,266
PBILDT	80,483	75,659	79,605
PAT	49,294	32,778	44,685
Overall gearing (times)	0.45	0.49	NA
PBILDT interest coverage (times)	14.13	9.59	10.60

A: Audited, UA: Unaudited, NA: Not available, Financials are reclassified as per CARE Ratings' standards.

Note: 'the above results are latest financial results available'

## About the company and industry (OPaL)

### Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Commodities	Chemicals	Chemicals & petrochemicals	Petrochemicals

Incorporated in November 2006, OPaL operates a greenfield 1.1 MMTPA petrochemicals complex in the SEZ at Dahej, Gujarat. OPaL is promoted by two Maharatna PSUs, viz., ONGC and GAIL, and GSPC. The project comprises a dual feed-cracker with a capacity to produce 1.1 MMTPA of ethylene and 0.40 MMTPA of propylene as petrochemical feedstock to downstream the polymer units in the Dahej SEZ. The project commenced its commercial production in 2017. The company uses C2, C3, C4, and naphtha



as feedstock to produce basic downstream petrochemicals products, viz., high-density polyethylene (HDPE), linear low-density polyethylene (LLDPE), polypropylene, butadiene, carbon black feedstock (CBFS), benzene, etc.

Brief Financials (₹ crore)	FY22 (A)	FY23 (A)	9MFY24 (UA)
Total operating income	16,048	14,593	10,616
PBILDT	2,543	469	-456
PAT	-535	-4155	-2,755
Overall gearing (times)	5.21	44.02	NM
PBILDT Interest coverage (times)	1.37	0.17	NM

A: Audited, UA.: Unaudited, NM: Not meaningful. The financials are reclassified as per CARE Ratings' standards.

Note: The above results are the 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:** Detailed explanation of covenants of the rated instruments/facilities is given in 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-MMM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Compulsorily convertible debentures	INE163N08271	02-Jul-2016	8.27%	02-Jul-2024	5615.00	CARE AAA (CE); Stable
Compulsorily convertible debentures	INE163N08297	28-Mar-2018	8.65%	27-Sep-2024	492.00	CARE AAA (CE); Stable
Debentures-Non-convertible debentures	INE163N08131	11-Feb-2020	8.00%	11-Apr-2025	475.00	CARE AAA (CE); Stable
Debentures-Non-convertible debentures	INE163N08156	25-Sep-2020	7.98%	25-Oct-2023	0.00	Withdrawn <sup>^</sup>
Debentures-Non-convertible debentures	INE163N08180	09-Jul-2021	6.63%	09-Jul-2024	510.00	CARE AA; Stable
Debentures-Non-convertible debentures	INE163N08115	10-Dec-2019	8.83%	10-Mar-2025	465.50	CARE AAA (CE); Stable
Debentures-Non-convertible debentures	-	-	-	proposed	3,930.00	CARE AA; Stable
Unsupported rating	-	-	-	-	0.00	CARE AA

<sup>^</sup>Withdrawn based on no dues-certificate.

## 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	Debentures-Compulsorily convertible debentures	LT	5615.00	CARE AAA (CE); Stable	1)CARE AAA (CE); Stable (27-Dec-23) 2)CARE AAA (CE); Stable (07-Sep-23)	1)CARE AAA (CE); Stable (30-Dec-22) 2)CARE AAA (CE); Stable (28-Jul-22) 3)CARE AAA (CE); Stable (28-Jun-22)	1)CARE AAA (CE); Stable (29-Jul-21)	1)CARE AAA (CE); Stable (22-Dec-20) 2)CARE AAA (CE); Stable (30-Jul-20)
2	Debentures-Compulsorily convertible debentures	LT	492.00	CARE AAA (CE); Stable	1)CARE AAA (CE); Stable (27-Dec-23) 2)CARE AAA (CE); Stable (07-Sep-23)	1)CARE AAA (CE); Stable (30-Dec-22) 2)CARE AAA (CE); Stable (26-Sep-22) 3)CARE AAA (CE); Stable (28-Jul-22)	1)CARE AAA (CE); Stable (29-Jul-21)	1)CARE AAA (CE); Stable (18-Mar-21) 2)CARE AAA (CE); Stable (30-Jul-20)
3	Debentures-Non-convertible debentures	LT	-	-	-	1)Withdrawn (28-Jul-22)	1)CARE AAA (CE); Stable (29-Jul-21)	1)CARE AAA (CE); Stable (30-Jul-20)
4	Debentures-Non-convertible debentures	LT	-	-	1)Withdrawn (07-Sep-23)	1)CARE AAA (CE); Stable (30-Dec-22) 2)CARE AAA (CE); Stable (28-Jul-22)	1)CARE AAA (CE); Stable (29-Jul-21)	1)CARE AAA (CE); Stable (30-Jul-20)
5	Debentures-Non-convertible debentures	LT	-	-	-	1)Withdrawn (28-Jul-22)	1)CARE AAA (CE); Stable (29-Jul-21)	1)CARE AAA (CE); Stable (30-Jul-20)
6	Debentures-Non-convertible debentures	LT	-	-	1)Withdrawn (07-Sep-23)	1)CARE AAA (CE); Stable (30-Dec-22) 2)CARE AAA (CE); Stable (28-Jul-22)	1)CARE AAA (CE); Stable (29-Jul-21)	1)CARE AAA (CE); Stable (30-Jul-20)
7	Unsupported rating	LT	-	-	-	-	1)Withdrawn (29-Jul-21)	1)CARE AA (30-Jul-20)
8	Debentures-Non-convertible debentures	LT	-	-	1)Withdrawn (07-Sep-23)	1)CARE AAA (CE); Stable (30-Dec-22) 2)CARE AAA (CE); Stable (28-Jul-22)	1)CARE AAA (CE); Stable (29-Jul-21)	1)CARE AAA (CE); Stable (30-Jul-20)
9	Debentures-Non-convertible debentures	LT	465.50	CARE AAA (CE); Stable	1)CARE AAA (CE); Stable (27-Dec-23)	1)CARE AAA (CE); Stable (30-Dec-22)	1)CARE AAA (CE); Stable (29-Jul-21)	1)CARE AAA (CE); Stable (30-Jul-20)

					2)CARE AAA (CE); Stable (07-Sep-23)	2)CARE AAA (CE); Stable (28-Jul-22)		
10	Debentures-Non-convertible debentures	LT	475.00	CARE AAA (CE); Stable	1)CARE AAA (CE); Stable (27-Dec-23) 2)CARE AAA (CE); Stable (07-Sep-23)	1)CARE AAA (CE); Stable (30-Dec-22) 2)CARE AAA (CE); Stable (28-Jul-22)	1)CARE AAA (CE); Stable (29-Jul-21)	1)CARE AAA (CE); Stable (30-Jul-20)
11	Debentures-Non-convertible debentures	LT	-	-	-	-	-	1)Withdrawn (22-Oct-20) 2)Provisional CARE AAA (CE); Stable (30-Jul-20)
12	Debentures-Non-convertible debentures	LT	3930.00	CARE AA; Stable	1)CARE AA; Stable (27-Dec-23) 2)CARE AA; Stable (07-Sep-23)	1)CARE AA; Stable (30-Dec-22) 2)CARE AA; Stable (28-Jul-22)	1)CARE AA; Stable (29-Jul-21)	1)CARE AA; Stable (14-Sep-20)
13	Unsupported rating	LT	0.00	CARE AA	1)CARE AA (27-Dec-23) 2)CARE AA (07-Sep-23)	1)CARE AA (30-Dec-22) 2)CARE AA (28-Jul-22) 3)CARE AA (28-Jun-22)	-	-
14	Unsupported rating	LT	0.00	CARE AA	1)CARE AA (27-Dec-23) 2)CARE AA (07-Sep-23)	1)CARE AA (30-Dec-22) 2)CARE AA (26-Sep-22)	-	-
15	Debentures-Non-convertible debentures	LT	-	-	1)CARE AA; Stable (27-Dec-23) 2)CARE AA; Stable (07-Sep-23)	-	-	-
16	Debentures-Non-convertible debentures	LT	510.00	CARE AA; Stable	1)CARE AA; Stable (27-Dec-23) 2)CARE AA; Stable (07-Sep-23)	-	-	-

LT: Long term

**Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities**

Name of the Instrument	Detailed explanation
<b>A. Non-financial covenants</b>	
I. The issuer would be required to fund the debenture servicing account due and payable on any payment date no later than 1 business day prior to the payment date (DSA funding date).	
II. If on the DSA funding date, the company has failed to fund the debenture servicing account with the requisite debt service amount due and payable on the payment date, then the CE provider shall take all reasonable actions for the debenture service account to be funded by the DSA funding date in accordance with the terms of the LoC.	

**Annexure-4: Complexity level of instruments rated**

Sr. No.	Name of the Instrument	Complexity Level
1	Debentures-Compulsorily convertible debentures	Complex
2	Debentures-Non-convertible debentures	Simple
3	Unsupported rating	Simple

**Annexure 5: Lender details**

To view the lender wise details of bank facilities please [click here](#)

**Annexure-6: List of subsidiaries/JVs of ONGC**

Name	Holding as on March 31, 2023	Extent of Consolidation	Rationale for Consolidation
ONGC Videsh Ltd	100.00%	Full	Subsidiary
Mangalore Refinery and Petrochemicals Ltd	71.63%	Full	Subsidiary
Hindustan Petroleum Corporation Ltd	54.90%	Full	Subsidiary
Petronet MHB Ltd	49.99%	Full	Subsidiary
ONGC Tripura Power Company Ltd	50.00%	Proportionate	Joint Venture
Dahej SEZ Ltd	50.00%	Proportionate	Joint Venture
ONGC TERI Biotech Ltd	49.98%	Proportionate	Joint Venture
ONGC Petro additions Ltd	49.36%	Proportionate	Joint Venture
Mangalore SEZ Ltd	26.00%	Proportionate	Joint Venture
Indradhanush Gas Grid Ltd	20.00%	Proportionate	Joint Venture
Pawan Hans Helicopters Ltd	49.00%	Proportionate	Associate
Rohini Heliport Ltd	49.00%	Proportionate	Associate
Petronet LNG Ltd	12.50%	Proportionate	Associate

Petronet LNG Ltd (PLL) has been classified as an associate since ONGC has a significant influence on PLL.

Petronet MHB Ltd. has been classified as a subsidiary as the company holds 49.99% ownership interest and its subsidiary HPCL holds 49.99% ownership interest.

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

## Contact us

<p><b>Media Contact</b></p> <p>Mradul Mishra Director <b>CARE Ratings Limited</b> Phone: +91-22-6754 3596 E-mail: <a href="mailto:mradul.mishra@careedge.in">mradul.mishra@careedge.in</a></p> <p><b>Relationship Contact</b></p> <p>Saikat Roy Senior Director <b>CARE Ratings Limited</b> Phone: 91 22 6754 3404 E-mail: <a href="mailto:saikat.roy@careedge.in">saikat.roy@careedge.in</a></p>	<p><b>Analytical Contacts</b></p> <p>Name: Ranjan Sharma Senior Director <b>CARE Ratings Limited</b> Phone: +91-22-6754 3453 E-mail: <a href="mailto:ranjan.sharma@careedge.in">ranjan.sharma@careedge.in</a></p> <p>Hardik Manharbhai Shah Director <b>CARE Ratings Limited</b> Phone: +91-22-6754 3591 E-mail: <a href="mailto:hardik.shah@careedge.in">hardik.shah@careedge.in</a></p> <p>Richa Bagaria Associate Director <b>CARE Ratings Limited</b> Phone: +91-33-4018 1653 E-mail: <a href="mailto:richa.jain@careedge.in">richa.jain@careedge.in</a></p>
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