Mangalore Refinery and Petrochemicals Limited

June 24, 2024

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	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 debt instruments of Mangalore Refinery and Petrochemicals Limited (MRPL) continue to factor in its strong parentage of 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 factor in operational synergies consequent to the completion of merger of ONGC Mangalore Petrochemicals Limited (OMPL) with it. The ratings are also underpinned by the company's strong asset profile given the superior processing capabilities of its refinery as reflected by high Nelson Complexity Index (NCI), its experienced management team and favourable location, being close to the port.

The ratings also take cognisance of continued healthy financial performance in FY24 (refers to the period from April 01 to March 31) characterised by exceptional Gross Refining Margin (GRM) of US$10.36 per barrel (US$9.88 per barrel in FY23) and high throughput of 16.6 million metric tonne (MMT) despite maintenance shutdown (17.1 MMT in FY23). GRM is expected to moderate in FY25 with expected moderation in product cracks and lower discount on Russian crude oil. Strong accruals in the last two years enabled the company to reduce its debt leading to improvement in its financial risk profile.

However, 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 GRMs, 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 debt protection metrics marked by total debt to profit before interest, lease rentals, depreciation, and taxation (TD/PBILDT) exceeding 5x.
- Sustained weakening of operational performance, marked by lower throughputs and 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 listed in **Annexure 6.**

Outlook: Stable

The 'Stable' outlook on ratings reflect 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 key rating drivers

Key strengths

Strong parentage and support

MRPL has a strong parentage with ONGC holding around 80% equity stake, 71.63% directly and balance through its subsidiary Hindustan Petroleum Corporation Limited (HPCL, 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. Apart from strategic linkages, there are also strong management linkages between the entities. Mr Arun Kumar Singh, Chairman of ONGC,

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

is also the Non-executive 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 received loans in past for undertaking its capex plans at favourable interest rates. The company purchases around 15-20% of its crude oil requirement from ONGC. ONGC has also extended guarantee to one of the company's foreign crude oil suppliers with respect to payments of its crude purchases.

Experienced management team

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

Mr. Mundkur Shyamprasad Kamath (Managing Director) has over three decades of experience in downstream hydrocarbon industry. Mr. Sanjay Varma (Director-Refinery) has diversified experience of over three decades in Petroleum Refining, Petrochemicals and Fertilizer sectors. He is associated with MRPL for more than three decades.

The senior management is supported by experienced and technically qualified professional in the company's operations.

Location advantages of being a coastal refinery with proximity to port, high NCI 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. In FY24, MRPL sourced around 73% of its crude oil requirement through imports. It also derived around 36% 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. MRPL's Petchem Intensity is currently at 10%, which is expected to reach 12% in the medium term.

MRPL's refinery has a high Nelson Complexity Index of 11.67 which enables it to process heavy oil with high quality. It can process crude oil of various APIs and deliver a variety of products such as High-Speed Diesel (HSD), Petrol /Motor spirit (MS), and Aviation Turbine Fuel (ATF) among others.

Healthy throughput and GRMs, resulting in continued strong financial performance in FY24

Post adverse impact of Covid-19 pandemic, MRPL has reported a rebound in throughput with capacity utilisation over 100% for the last three years ended FY24. The company registered highest ever throughput of 17.14 MMT (114% capacity utilisation) in FY23 which stood healthy at 16.59 MMT (111% capacity utilisation) in FY24 despite maintenance shutdown activity undertaken in Q2FY24. On account of moderation in capacity utilisation, the company reported total operating income (TOI) of ₹90,421 crore in FY24 against ₹1,09,066 crore in FY23. GRM remained healthy at US$10.36 per barrel in FY24 (US$9.88 per barrel in FY23) supported by healthy product cracks and high share of low-cost Russian crude oil.

On the back of improved GRMs and healthy capacity utilisation, despite dip in TOI, the PBILDT margin improved to 8.53% in FY24 (PY:6.02%) and the company registered its highest PAT of ₹3,597 crore in FY24.

Improvement in capital structure

In the last two years, MRPL has significantly improved its leverage position. The overall gearing ratio has improved from 3.28x as on March 31, 2022, to 1.15x as on March 31, 2024 (2x as on March 31, 2023) along with improvement in its debt coverage indicators. Strong accruals in the last two years enabled MRPL reduce its debt level significantly. Going forward, overall gearing ratio is expected to remain comfortable, with expected healthy profitability and scheduled debt repayments, with cushion to avail fresh debt for its capex plan.

The interest coverage ratio also improved to 6.92x in FY24 (PY:5.06x) while TD/gross cash accruals (GCA) improved to 2.56x in FY24 (PY: 4.04x).

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 unutilised working capital limit of around ₹6,200 crore as on March 31, 2024. The company is expected to have sufficient accruals to meet its debt repayment obligations of around ₹1,200 crore in FY25. It has project capex requirements of nearly ₹630 crore which is expected to be comfortably funded out of its internal accruals. Going forward, owing to higher debt repayment obligation of around ₹2,300 crore in FY26, its capex requirements are expected to be largely met through reliance on debt, for which, it has sufficient gearing headroom.

The company generated healthy cash flow from operations of ₹7,255 crore, which was majorly utilised towards prepayment of some of its high interest-bearing loans of around ₹3,183 crore in FY24, while total loan repayment in the FY24 stood at ₹5,058 crores. The capex of around ₹1,576 crore in FY24 was funded through internal accruals.

Key weaknesses

Exposure to fluctuation in crude oil prices

MRPL's profitability margins are exposed to sharp movements in crude oil prices. Crude oil prices and crack spreads are a function of many dynamic markets and fundamental factors, such as 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 two key drivers: crude prices and refined product prices. A sharp fall in crude oil prices leads to inventory losses for refiners leading to lower GRM, impacting their profitability. MRPL witnessed negative GRMs in FY20 and lower GRM of US$ 3.71 per barrel in FY21, which though has improved significantly in the last three years ended FY24 owing to geo-political scenario.

Exposure to foreign exchange fluctuation risk

MRPL imports around 70%-80% of the raw material (crude) requirement. It secures its crude supply position by entering term contracts mainly with national oil companies from various regions. Payment for the import of oil crude is dollar denominated. 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 36% of its sales income from export of products (PY:39%). The company is further exposed to currency fluctuation risk through foreign currency term loans availed.

Regulatory risk

The government of India's (GoI) policy and decisions with respect to finished product pricing, 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, GoI may choose to pass on the fiscal burden by sharing of profits of PSUs through higher fiscal levies, higher dividend declaration or providing discounts to oil marketing companies (OMCs) which has the potential to impact MRPL's income and accruals.

Refineries are required to comply with the increasingly stringent product specifications (such as equivalent of Bharat Stage VI) as stipulated by regulators.

Industry Prospects

In FY24, India's oil refining companies processed 261.55 MMT of crude oil, surpassing their aggregate installed capacity of 256.82 MMT as on March 31, 2024 (against last year's processing of 255.23 MMT on a capacity of 253.92 MMT as on March 31, 2023). This high-capacity utilisation is primarily attributed to robust domestic and export demand for key refined products. The availability of relatively cost-competitive Russian crude, a substantial post-pandemic surge in refined product demand, and geopolitical disruptions leading to higher demand for Indian refined products from European nations have collectively contributed to Indian refiners consistently achieving significantly higher GRMs than the benchmark Singapore GRMs in the last four years ended FY24. This led to improving credit profile of Indian refiners.

After enjoying exceptionally high Gross Refining Margin (GRM) in FY23 at an average of US$16-18/bbl, the GRM of Indian Refiners moderated to an average of US$10-12/bbl in FY24 on the back of a narrowing discount on Russian crude along with a reduction in product cracks, however, continued to remain reasonably higher than the benchmark Singapore GRM of US$6.7/bbl for FY24 (US$10.77/bbl for FY23).

Despite moderation in GRM in FY24, operating profit of oil players jumped multi-fold in FY24 over FY23 due to higher marketing margin. Even though average crude oil prices were reduced in FY24 from FY23, the retail price of Motor Spirit (MS) / High-Speed Diesel (HSD) was unchanged since April 2022 which resulted in a higher marketing margin in FY24.

The decision of Russia and other OPEC+ nations to extend the voluntary cut in crude oil production by 2.2 million barrels per day till mid-2024 and geo-political factors including the Middle-East disturbance, has somewhat limited the decline in crude oil prices in spite of sluggish global demand prospects, high interest rates and inflationary pressures.

Going forward, GRM of Indian refiners is expected to moderate further in FY25 and remain in the range of US$6-8/bbl with a reduction in product cracks, especially for diesel and a lower discount on Russian crude. Marketing margin is also expected to moderate on the back of a reduction in the retail price of petrol and diesel by ₹2/litre implemented from mid-March 2024.

Environment, social and governance (ESG) risk assessment:

Risk factors	Compliance and action by the company
Environmental	MRPL is exposed to risks associated with stricter regulations on environment and safety, which can also lead to significant expenditure. Upgrade to BS-VI compliant project required an outflow of close to ₹1,800 crore. MRPL is utilising Mangalore city treated sewage water to enable fresh river water conservation, which stood at 61,09,555 M3. The company has continued to produce renewable energy through solar power to reduce the carbon footprint. In FY23 total solar energy generated by MRPL was 10,293 MWh and total solar energy consumed by the company was 17,895 MWh (including the solar energy imported). MRPL is in the process of putting up a Bio-ATF plant. By integrating bio alternative ATF into the refinery's operations, the reliance on fossil fuels shall be reduced thereby resulting in lower carbon dioxide emissions. Additionally, MRPL is also considering establishing 2G-ethanol plants which will enable the production of renewable fuel sources, thereby decreasing the GHG emissions associated with traditional petroleum-based products. In FY23, 69.80% of ETP feed flow was recycled and re-used in the refinery and 66.60% of total hazardous and non-hazardous waste was recycled and re-used. MRPL developed a bio-diversity park in 50 acres of marshy land, where the marshy land has been converted to a full-fledged biodiversity park with approximately 4,000 numbers of different western ghat plant species.
Social	Medical checkup of employees is conducted annually. Occupational Health Centre (OHC) with 24X7 availability of Medical Staff is functional. The company achieved NIL lost time injury frequency rate in FY23. Aromatic complex bagged "Karnataka State Level Safety Award 2023"in the Petrochemical industries category, by Department of Factories & Boiler. Aromatic Complex has also received Prashansha Patra Award (4th position) from National Safety Council –Mumbai in Refinery and Petrochemical Sector (Manufacturing).
Governance	Around 36% of the MRPL's board comprises of independent directors. MRPL has formulated policies to 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 also in place.

Applicable criteria

[Consolidation](#)
[Definition of Default](#)
[Factoring Linkages Parent Sub JV Group](#)
[Liquidity Analysis of Non-financial sector entities](#)
[Rating Outlook and Rating Watch](#)
[Manufacturing Companies](#)
[Financial Ratios – Non financial Sector](#)
[Short Term Instruments](#)

About the company and industry

Industry classification

Macro-Economic Indicator	Sector	Industry	Basis Industry
Energy	Oil, gas and consumable fuels	Petroleum products	Refineries and 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, 2024. Further, HPCL held 16.96% shareholding as on March 31, 2024. 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 light to heavy and sour to sweet crudes with 24 to 46 API gravity. Apart from the refinery capacity, the company is also into manufacturing 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 OMCs as well as derives income through exports. The company also has 101 retail outlets in Karnataka and Kerala states as on March 31, 2024.

Brief Financials (₹ crore)- Consolidated	FY23(A)	FY24 (Abridged)
Total operating income	1,09,066	90,421
PBILDT	6,568	7,710
PAT	2,655	3,597
Overall gearing (times)	2.00	1.15
PBILDT Interest coverage (times)	5.06	6.92

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Covenants of rated instruments/facilities: Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of Instruments

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Commercial Paper-Commercial Paper (Carved out)*	Proposed	-	-	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 07, 2024*

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 2024-2025	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
1	Commercial Paper-Commercial Paper (Carved out)	ST	5000.00	CARE A1+	-	1)CARE A1+ (06-Jul-23)	1)CARE A1+ (28-Jul-22)	1)CARE A1+ (29-Jul-21) 2)CARE A1+ (03-May-21)

2	Debentures-Non-Convertible Debentures	LT	1217.00	CARE AAA; Stable	-	1)CARE AAA; Stable (06-Jul-23)	1)CARE AAA; Stable (28-Jul-22)	1)CARE AAA; Stable (29-Jul-21)
3	Debentures-Non-Convertible Debentures	LT	1200.00	CARE AAA; Stable	-	1)CARE AAA; Stable (06-Jul-23)	-	-
4	Debentures-Non-Convertible Debentures	LT	2583.00	CARE AAA; Stable	-	1)CARE AAA; Stable (06-Jul-23)	-	-

LT: Long term; ST: Short term

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

Annexure-4: Complexity level of 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

Annexure 6: List of entities consolidated (As on March 31, 2024)

S. No.	Name of the Companies	Extent of consolidation	Rationale for consolidation
1	Shell MRPL Aviation Fuels & Services Ltd.	Proportionate	Joint Venture

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

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