ONGC Petro additions Limited

August 22, 2024

Sr. No.	Instruments	Amount (₹ crore)	Ratings[1]	Rating Action
1.	Compulsorily convertible debentures#	5,615.00	CARE AAA (CE); Stable	Reaffirmed
2.	Compulsorily convertible debentures#	492.00	CARE AAA (CE); Stable	Reaffirmed
3.	Non-convertible debentures^	465.50	CARE AAA (CE); Stable	Reaffirmed
4.	Non-convertible debentures^	475.00	CARE AAA (CE); Stable	Reaffirmed
5.	Non-convertible debentures@	3,930.00	CARE AA; (RWP)	Placed on Rating Watch with Positive Implications
6.	Non-convertible debentures@	-	-	Withdrawn

Details of instruments in Annexure-1.

@Standalone

#Backed by credit enhancement (CE) in the form of an irrevocable and unconditional undertaking which is legally enforceable, 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.

^CE in the form of a letter of comfort (LoC) from ONGC, which is unconditional, irrevocable, valid and is legally enforceable 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).

Unsupported rating	**CARE AA (Rating Watch with Positive Implications) [Placed on Rating Watch with Positive Implications]**

Note: Unsupported rating does not factor in the explicit CE.

Rationale and key rating drivers for credit-enhanced debt

The rating assigned to the CCDs (Sr. No. 1) of ONGC Petro additions Limited (OPaL) is backed by an irrevocable and unconditional undertaking which is legally enforceable (per independent legal opinion taken by CARE Ratings Limited [CARE Ratings]), from ONGC, to buyout CCDs from the investors prior to the expiry of the 101st month from the deemed date of allotment (July 02, 2016) and a legally enforceable undertaking to ensure the timely funding of the coupon payments.

The rating assigned to the CCDs (Sr. No. 2) is also backed by an irrevocable and unconditional undertaking which is legally enforceable (as per independent legal opinion taken by CARE Ratings) from ONGC, to buyout the CCDs from the investors prior to the expiry of the 77th month from the deemed date of allotment (March 28, 2018) and a legally enforceable undertaking to ensure to fund the coupon payments.

CARE Ratings notes that OPaL in its Extra-ordinary General Meeting dated August 12, 2024, has approved extension of tenure of compulsorily convertible debentures (CCDs) of ₹492 crore (ISIN: INE163N08297) prior to the date of exercising of the put option becoming applicable on August 28, 2024, and conversion date of September 27, 2024. The tenure of the CCDs is proposed to be extended up to six months for which investors are expected to provide the consent. ONGC, in its Board meeting, has already approved the extension of backstopping support for aforementioned CCDs.

CARE Ratings notes that extant extension of the tenure of CCDs is solely to keep status quo of existing capital structure till the time ongoing capital restructuring is completed for increasing equity stake of ONGC in OPaL beyond its existing 49.36% stake.

For both the abovementioned 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. 3 and 4) is based on the CE in the form of 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 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 (CE provider)

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

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

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

However, ratings 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

Ratings assigned to the standalone NCD issue (S. No. 5) /unsupported rating of OPaL has been placed under rating watch with positive implications in view of the announcement made by ONGC on August 09, 2024, informing the receipt of approval from GoI for infusion of additional equity capital upto ₹10,501 crore in OPaL, conversion of back stopped CCDs amounting to ₹7,778 crore and balance payment of ₹86 crore towards share warrants, aggregating to ₹18,365 crore. This will change the status of OPaL into subsidiary of ONGC with 95.69% equity stake (from current equity stake of 49.36%) and thereby OPaL having easy access to ONGC for its requirements. This is further expected to lead to improvement in OPaL's financial risk profile with improvement in capital structure and significant saving in interest cost.

While the timelines are contingent on further internal approvals and processes, CARE Ratings expects the same to be concluded shortly.

Ratings continue to factor in the managerial and financial support provided by ONGC and the operational linkages arising from the long-term supply arrangement of feedstock with ONGC. 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, and healthy capacity utilisation albeit moderation witnessed in FY23 due to major overhauling.

However, ratings are constrained by OPaL's subdued financial performance in FY24 and Q1FY25, weak financial risk profile as on March 31, 2024, marked by operating loss, negative net worth position and reliance on the replacement of debt, and the commoditised nature of the petrochemical business with inherently fluctuating raw material prices and finished product prices.

CARE Ratings has withdrawn the rating assigned to the NCD issue (Sr. No. 6) with immediate effect, as the company has repaid the aforementioned NCD issue in full and there is no amount outstanding under the issue as on date.

Rating sensitivities of ONGC (for 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 GoI.

Negative factors

- Significant delay in completion of its capital restructuring.
- 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, 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 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 March 31, 2024. ONGC continues to be of high strategic importance for the GoI, as it is the largest oil and gas company of India 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 considering the significant taxes and dividends paid by it to the exchequer.

Experienced management

ONGC is managed by an experienced management team. Arun Kumar Singh, the Chairman of ONGC, has over 37 years of experience in the oil and gas industry in India and 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+'). Om Prakash Singh, Director-Technology & Field Services, is a mechanical engineer with more than 35 years of experience; he has a deep industry understanding and has a proven management experience across the technical and commercial roles which he undertook in his career. Pankaj Kumar, Director- Production, has 35 years of extensive experience in the oil & gas sector encompassing multifaceted expertise in operations management, well engineering, joint venture management, corporate strategy, and asset management. Sushma Rawat, Director-Exploration, is a postgraduate in geology, with more than 33 years of industry experience. 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, among others

The company has the largest proven reserves in India, discovered in the last 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 FY24, the company added 46.57 million metric tonne oil equivalent (MMTOE) reserves (2P) on a standalone basis. The company's 2P reserves as on March 31, 2024, stood at around 704 MMTOE on a standalone basis and at around 717 MMTOE on a consolidated basis. Thus, the company had a reserve replacement ratio (RRR) of 1.15x in FY24, which has remained at/above unity for the 18th consecutive year, 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. 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 throughout the principal oil and gas producing regions of India. In FY24, ONGC drilled 541 wells comprising 103 exploratory wells and 438 developmental wells.

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 88% of ONGC's revenue (consolidated) is from the refining and marketing segment in FY24 (PY: 86%).

Sizeable scale of operations and resilient profitability margins

The company's consolidated total operating income (TOI) decreased by 6% y-o-y in FY24 after witnessing an improvement of 29% y-o-y in FY23, mainly owing to reduction in crude prices. However, the operating profitability improved by around 500 bps y-o-y mainly due to the high margins from the marketing segment.

Further the company was able to sustain on its revenue profile in Q1FY25 backed by increase in crude oil prices which increased the overall realisation by about 10% y-o-y. However, the gas prices moderated by about 3% y-o-y. The decrease in oil/gas production was mainly due to delay in implementation of KG-98/2 and natural decline from mature fields. The decline in production from matured fields is expected to be compensated in the upcoming quarters with commencement of additional production from upcoming projects which are under stages of development apart from commencement of production from KG-98/2 basin.

Going forward, CARE Ratings expects profitability to moderate yet remain healthy, with normalisation of marketing margins and the impact of government regulations such as imposition of windfall taxes.

Liquidity: Strong

ONGC's liquidity remained strong, with a cash and bank balance of around ₹36,690 crore as on March 31, 2024. ONGC has been utilising its fund-based limits of around ₹10,000 crore sparingly. The company is expected 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 FY25. ONGC's board and GoI has approved the implementation of sustainable capital restructuring of OPaL, wherein ONGC is expected to invest around ₹18,365 crore in OPaL. While this investment is likely to moderate ONGC's overall liquidity, it still expected to remain strong at around ₹15,000-20,000 crore.

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, aiding the funding of its large capex partially through debt.

Key weaknesses

Risk related to 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.

The company is also exposed to commodity price risk. Although ONGC as a group is an integrated player in the oil and gas industry, decrease in the crude oil price may hamper the company's profitability, as it derives majority of its own revenue from the sale of crude oil and natural gas. The international crude oil prices 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 crude prices 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 the geopolitical risk owing to its subsidiary, 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, and fiscal law changes, among others, 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

In the past couple of years ended FY24, the average capex of ONGC (standalone) per annum has been between ₹33,000 crore (Capex in FY24 stood at ₹37,494 crore mainly owing to KG-DWN 98/2 block), 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 with FY25 capex to be maintained between ₹33,000 and ₹35,000 crore.

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. In 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 SAED on the crude oil production , 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 such as 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
Environmental	• 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. • 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 CO2e per annum and three new projects are under validation. • 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 in the last decade to effectively recycle and reuse treated water. In 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, in FY23. • In FY23, about 93,151 MT oil contaminated soil or oily sludge was bio-remediated across ONGC. • 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. • Global Methane Initiative – ONGC was the first non-American company to undertake the detection of methane leak through procured high tech equipment. In FY23, a leak detection survey was carried out in the Hazira and Uran plants. • 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.
Social	• 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. • The company has taken around 1,175 CSR projects, wherein there were 23 lakh beneficiaries in FY23. • 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 Swachh Bharat.

Risk factors	Compliance and action by the company
	• 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.
Governance	• 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. • In compliance with Section 177(8) of the Companies Act, 2013 & 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 Annual Report. There was no instance in FY23 when the board had not accepted recommendation of the Audit Committee. • 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.

Analytical approach for OPaL

Credit-enhanced rating: The assessment of the guarantor, 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 and 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. OPaL's debt has been considered in the analysis, whereby, ONGC has extended its LoC and undertaking for NCD and CCD issuances of OPaL.

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

Outlook for OPaL: Not Applicable

Detailed description of key rating drivers of OPaL for 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, ONGC. As on March 31, 2024, 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. One member on the board of OPaL is common between OPaL and ONGC. Thus, ONGC has the meaningful representation on OPaL's board, with two out of 10 members being from ONGC. In addition, there exists significant operational synergies between the company and ONGC, which supplies feedstock, naphtha from Hazira and Uran and 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, diversification into petrochemicals. Also, ONGC has shared its name with OPaL. 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 company's significance for ONGC and the latter's support is further evident from the LoC given by ONGC for series of NCDs issued by OPaL and 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 had 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. Recently, on August 09, 2024, ONGC also received the Government approval for the same. Post implementation of the proposed restructuring plan, OPaL would become a majority owned subsidiary of ONGC.

Healthy capacity utilisation in last three years, albeit moderation witnessed during FY23

In FY23, OPaL's petrochemical complex had undergone a major overhauling process. The same was undertaken in 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 a phased manner due to certain operational issues, leading to moderation in capacity utilization in FY24 albeit capacity utilization remained higher than FY23.

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

Liquidity: Adequate

OPaL's liquidity profile 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. 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. It does not have major capex plan in the near term.

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

Key weaknesses

Subdued financial performance in FY24 and Q1FY25

OPaL's operating profitability moderated significantly from 3.21% in FY23 to operating loss of ₹495 crore in FY24 owing to lower sales realisation of its products in view of subdued global demand and slow correction in naphtha prices, a decrease in the supply of natural gas from ONGC post increase in the domestic gas allocation to city gas distribution (CGD) companies, and 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.

CARE Ratings expects the company's operating profitability to improve from FY25 onwards, led by reduction in natural gas and naphtha prices, an improvement in product cracks, and the benefits accruing from exiting the SEZ. Moreover, OPaL is in discussion with ONGC for feedstock supply and shall also procure feedstock from the market, which is readily available to fulfil its requirement, ensuring continued and assured supply of feedstock.

Leveraged financial risk profile, however, capital restructuring already underway

Historically, the company's debt 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, the company initially reported continued losses due to low utilisation levels, which consequentially increased its working capital requirement, leading to a further increase in its debt levels. Due to the high interest burden and continued losses, its net worth turned negative as on March 31, 2024.

However, the BoD of ONGC and GoI, had approved the implementation of sustainable capital restructuring of OPaL, wherein, additional equity capital upto ₹10,501 crore shall be infused in OPaL by ONGC, back stopped CCDs amounting to ₹7,778 crore shall be converted into equity and balance payment of ₹86 crore towards share warrants shall be made. Post implementation of the aforementioned capital restructuring, ONGC's shareholding in OPaL shall increase from 49.36% to about 96%, making OPaL a subsidiary of ONGC, which shall result in significant improvement in its capital structure and saving in interest cost.

Commoditised and inherently volatile nature of the petrochemical business

OPaL derives 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 finished goods and feedstock prices, and the derived petrochemical margins, have demonstrated significant volatility in the past, 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 feedstock and finished products prices.

Applicable criteria

Consolidation
Definition of Default
Factoring Linkages Government Support
Factoring Linkages Parent Sub JV Group
Liquidity Analysis of Non-financial sector entities
Rating Credit Enhanced Debt
Rating Outlook and Rating Watch
Manufacturing Companies
Financial Ratios – Non financial Sector
Withdrawal Policy

Adequacy of credit enhancement structure:

In case of CCDs at Sr. No. 1 and 2, 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. 3 and 4, the letter of comfort from ONGC is unconditional, irrevocable, valid and is legally enforceable and 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 March 31, 2024. 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, and South Sudan, among others, through its wholly-owned subsidiary, OVL. Also, it has integrated downstream activities in India with two subsidiaries, 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 parts of Karnataka.

Brief Financials (₹ crore)-Consolidated	*FY23 (Abr.)	FY24 (Abr.)	Q1FY25 (UA)
Total operating income	684,829	643,037	166,577
PBILDT	77,280	1,05,232	22,009
PAT	34,046	57,101	10,236
Overall gearing (times)	0.49	0.44	NA
PBILDT interest coverage (times)	9.80	10.32	7.49

UA; Unaudited, Abr.: Abridged, NA: Not available; Financials are reclassified per CARE Ratings' standards.
Note: 'the above results are latest financial results available'
*FY23 financials have been restated retrospectively owing to change in accounting treatment for Ocean Bottom Node (OBN) seismic survey

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, , 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, , high-density polyethylene (HDPE), linear low-density polyethylene (LLDPE), polypropylene, butadiene, carbon black feedstock (CBFS), and benzene, among others.

Brief Financials (₹ crore)	FY23 (A)	FY24 (Abr)	Q1FY25 (UA)
Total operating income	14,593	14,307	3721
PBILDT	469	-495	-20
PAT	-4,155	-3,456	-983
Overall gearing (times)	44.02	NM	NA
PBILDT Interest coverage (times)	0.17	NM	NM

A: Audited, Abr.: Abridged, NM: Not meaningful, NA: Not available, UA; Unaudited. The financials are reclassified 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 last three years: Annexure-2

Covenants of 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-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Debentures-Non-convertible debentures	-	-	-	Proposed	3930.00	CARE AA (RWP)
Debentures-Non-convertible debentures	INE163N08180	09-Jul-2021	6.63%	09-Jul-2024	0.00	Withdrawn
Compulsorily convertible debentures	INE163N08305	02-Jul-2016	8.60%	02-Jan-2025	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	INE163N08115	10-Dec-2019	8.83%	10-Mar-2025	465.50	CARE AAA (CE); Stable
Debentures-Non-convertible debentures	INE163N08131	11-Feb-2020	8.00%	11-Apr-2025	475.00	CARE AAA (CE); Stable
Unsupported rating	-	-	-	-	0.00	CARE AA (RWP)
Unsupported rating		-	-	-	0.00	CARE AA (RWP)

Annexure-2: Rating history for 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	Debentures-Compulsorily convertible debentures	LT	5615.00	CARE AAA (CE); Stable	1)CARE AAA (CE); Stable (20-Jun-24)	1)CARE AAA (CE); Stable (21-Mar-24) 2)CARE AAA (CE); Stable (27-Dec-23) 3)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)
2	Debentures-Compulsorily convertible debentures	LT	492.00	CARE AAA (CE); Stable	1)CARE AAA (CE); Stable (20-Jun-24)	1)CARE AAA (CE); Stable (21-Mar-24) 2)CARE AAA (CE); Stable (27-Dec-23) 3)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)
3	Debentures-Non-convertible debentures	LT	-	-	-	-	1)Withdrawn (28-Jul-22)	1)CARE AAA (CE); Stable (29-Jul-21)
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)

5	Debentures-Non-convertible debentures	LT	-	-	-	-	1)Withdrawn (28-Jul-22)	1)CARE AAA (CE); Stable (29-Jul-21)
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)
7	Unsupported rating	LT	-	-	-	-	-	1)Withdrawn (29-Jul-21)
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)
9	Debentures-Non-convertible debentures	LT	465.50	CARE AAA (CE); Stable	1)CARE AAA (CE); Stable (20-Jun-24)	1)CARE AAA (CE); Stable (21-Mar-24) 2)CARE AAA (CE); Stable (27-Dec-23) 3)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)
10	Debentures-Non-convertible debentures	LT	475.00	CARE AAA (CE); Stable	1)CARE AAA (CE); Stable (20-Jun-24)	1)CARE AAA (CE); Stable (21-Mar-24) 2)CARE AAA (CE); Stable (27-Dec-23) 3)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)
11	Debentures-Non-convertible debentures	LT	3930.00	CARE AA (RWP)	1)CARE AA; Stable (20-Jun-24)	1)CARE AA; Stable (21-Mar-24) 2)CARE AA; Stable (27-Dec-23) 3)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)
12	Unsupported rating	LT	0.00	CARE AA (RWP)	1)CARE AA	1)CARE AA (21-Mar-24)	1)CARE AA (30-Dec-22)	-

					(20-Jun-24)	2)CARE AA (27-Dec-23) 3)CARE AA (07-Sep-23)	2)CARE AA (28-Jul-22) 3)CARE AA (28-Jun-22)	
13	Unsupported rating	LT	0.00	CARE AA (RWP)	1)CARE AA (20-Jun-24)	1)CARE AA (21-Mar-24) 2)CARE AA (27-Dec-23) 3)CARE AA (07-Sep-23)	1)CARE AA (30-Dec-22) 2)CARE AA (26-Sep-22)	-
14	Debentures-Non-convertible debentures	LT	-	-	-	1)Withdrawn (21-Mar-24) 2)CARE AA; Stable (27-Dec-23) 3)CARE AA; Stable (07-Sep-23)	-	-
15	Debentures-Non-convertible debentures	LT	-	-	1)CARE AA; Stable (20-Jun-24)	1)CARE AA; Stable (21-Mar-24) 2)CARE AA; Stable (27-Dec-23) 3)CARE AA; Stable (07-Sep-23)	-	-

LT: Long term

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

Name of the Instrument	Detailed explanation
A. Non-financial covenants	
1. Non-convertible debentures (Sr No. 3 & 4)	I. The issuer would be required to fund the debenture servicing account due and payable on payment date no later than one 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.
2. Compulsorily convertible debentures (Sr No. 1 & 2)	I. The CCDs were issued with a backstopping of CE provider having sole right to purchase the debentures (Buyout Option). Further Investors have the right to sell (exercise the Put Option) by issuing a written notice to ONGC at least 60 (Sixty) days prior to the Put Option Exercise Date.
	II. As and when CCDs would be due for exercise of mandatory put option (about 1 month prior to its conversion date), ONGC in accordance with the option agreement executed with the Debenture Trustee would have to buyout the CCDs along with the payment of accrued coupon.

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 lender-wise details of bank facilities please click here

Annexure-6: List of subsidiaries/JVs of ONGC

Sr No	Name	Extent of Consolidation	Rationale for Consolidation
1	ONGC Videsh Ltd	Full	Subsidiary
2	Mangalore Refinery and Petrochemicals Ltd	Full	Subsidiary
3	Hindustan Petroleum Corporation Ltd	Full	Subsidiary
4	Petronet MHB Ltd	Full	Subsidiary
5	ONGC Green Limited	Full	Subsidiary
6	ONGC Tripura Power Company Ltd	Proportionate	Joint venture
7	Dahej SEZ Ltd	Proportionate	Joint venture
8	ONGC TERI Biotech Ltd	Proportionate	Joint venture
9	ONGC Petro additions Ltd	Proportionate	Joint venture
10	Mangalore SEZ Ltd	Proportionate	Joint venture
11	Indradhanush Gas Grid Ltd	Proportionate	Joint venture
12	Pawan Hans Ltd	Proportionate	Associate
13	Rohini Heliport Ltd	Proportionate	Associate
14	Petronet LNG Ltd	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.
ONGC Green Limited was incorporated on February 27, 2024, as a wholly owned subsidiary.

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. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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