

Mangalore SEZ Limited

October 09, 2024

Facility	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facility	307.10 (Reduced from 414.30)	CARE AA-; Stable	Upgraded from CARE A+; Positive

Details of facilities in Annexure-1.

Rationale and key rating drivers

The revision in the rating assigned to the bank facility of Mangalore SEZ Limited (MSEZL) factors significant prepayment of its debt through receipt of lease premium from its lessees along-with the need-based financial support expected to be received from Oil and Natural Gas Corporation Limited (ONGC; rated CARE AAA; Stable/ CARE A1+ and currently holding 26% stake), which along-with its subsidiary Mangalore Refinery and Petrochemicals Limited (MRPL; rated CARE AAA; Stable/ CARE A1+), are in the process of acquiring stake (50%) held by Infrastructure Leasing & Finance Services Limited (IL&FS; rated CARE D) in MSEZL. The rating also favourably considers the management's intent to make sizeable additional prepayment of its debt out of expected cashflows in the near term which is likely to further strengthen the company's debt coverage indicators.

Ratings continue to derive strength from presence of sponsors ONGC, and Karnataka Industrial Area Development Board (KIADB; with 23% holding) translating in sound management and financial flexibility despite weak credit risk profile of the majority sponsor IL&FS (with 50% holding). While the leasing progress remains stagnant year over year (y-o-y), overall leasing stood healthy at 85% with company in discussion with ONGC group for further leasing of land. The rating further derives strength from the project's strategic location with proximity to Mangalore port, which gives it a competitive edge, streamlined sources of revenue from sale of water and power, supply of services in addition to lease premiums and annual lease rentals and healthy liquidity position, despite prepayments.

Notwithstanding uptick in leasing progress, marketing risk for balance area remains. While CARE Ratings Limited (CARE Ratings) takes note of receipt of Expression of Interests (EoIs), timely translation of these in leasing will be key to the company's prospects in the long term. Rating continues to be constrained by residual project implementation risk notwithstanding discretionary nature of future capex and competition from other special economic zone (SEZ)/ industrial areas.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Majority stake holding by CPSUs.

Negative factors

- Deterioration in liquidity profile leading to mismatch in the cashflows of MSEZL
- Change in support philosophy of ONGC towards MSEZL

Analytical approach:

Standalone factoring the stance of support from its JV partner, ONGC

Outlook: Stable

Stable outlook reflects good visibility in terms of receipt of lease premium for the balance land, while as a fall-back arrangement it has strong financial flexibility in terms of need-based support available from one of its strong JV partners, ONGC.

Detailed description of key rating drivers:

Key strengths

Support stance from strong JV partner – ONGC and probable exit of weak JV partner IL&FS

IL&FS, who currently holds 50% stake in MSEZL, is in the process of divesting its entire stake in the company. The stake of IL&FS is proposed to be acquired by ONGC (who has the first right of refusal) and its subsidiary, MRPL. This proposal is pending before the Committee of Creditors (CoC) of IL&FS (while the same was earlier rejected by CoC basis dated valuation of MSEZL, IL&FS and ONGC are under process of obtaining fresh valuation and likely to place the same with CoC over the next few months). Probable exit of IL&FS and increase in stake of ONGC group would enhance the company's financial flexibility. While the company has prepaid its term debt till March 2027, need-based financial support from ONGC will continue to remain. Further, MRPL is also

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

an anchor tenant occupying ~40% of MSEZL's leasable area, with plans of taking further area on lease from MSEZL for its expansion project.

Healthy leasing levels

Currently, total leasing progress in MSEZL stood at 85% (as on March 31, 2024), which remained at similar level a year ago. The stagnancy in leasing progress is largely owing to interest of ONGC group in some portion of land where the company is expecting healthy lease premium over the medium term. Further, for the leased-out area of 126.79 acres with one of the existing occupiers in March 2023, the company is yet to receive sizeable lease premium of ~₹164 crore (excluding ₹40 crore received in Q1FY25) in the near term.

MSEZL's management has guided that the entire lease premium received would be primarily utilised for debt prepayment. CARE Ratings believes that timely receipt of amount and consequent debt reduction would strengthen MSEZL's liquidity position.

Strategic location of project well-connected with rail, road and port and robust infrastructure within SEZ

The project site has good road, rail, air, and port infrastructure and is well connected to all major metropolitan towns of the country. Also, its proximity to port ensures good connectivity to crude oil suppliers in Gulf and major markets in Southeast Asia, Europe, and USA, making it an ideal location for importers and exporters. Furthermore, entire SEZ is supported by robust infrastructure such as adequate water supply, power supply from state grid, planned roads, effluent treatment plant, and pipeline-cum-road corridor connecting directly to port among others.

Streamlined revenue sources of MSEZL

The company generates income from lease premium (a non-refundable one-time fee on leasing the land), annual lease rentals, sale of products (water and power), supply of services (operations and maintenance, facility usage charges, usage of common effluent treatment plant (CETP)) and Corridor ROW charges. Water charges and power charges form the key components of its income with annual escalation clauses and take-or-pay arrangement with minimum guaranteed off-take with key tenants. For supply of services, the company receives revenue from tenants inside SEZ through predetermined contracts at agreed rates.

Significant debt reduction through receipt of lease premium and right of way charges

MSEZL's term debt reduced significantly from ₹414.40 crore as on August 30, 2023, to ₹307.1 crore as on September 25, 2024. MSEZL received an aggregate of ₹40 crore from Indian Strategic Petroleum Reserves Limited (ISPRL) and ₹22 crore as right of way (RoW) charges in Q1FY25, which along with healthy operating cashflows were utilised towards debt prepayments. The management indicated to make additional prepayment out of balance lease premium receivable from ISPRL, which is likely to further strengthen the company's debt coverage indicators.

Liquidity: Strong

The company's liquidity is supported by surplus cash and cash equivalents of ₹61.36 crore (including ₹6.89 crore in debt service reserve account (DSRA) FD equivalent to one month's interest and principal repayment) as on September 25, 2024, despite significant prepayment of debt out of one-time lease premium.

The company is expected to make further prepayments upon receipt of balance lease premium from already leased area, while maintaining comfortable liquidity cushion for its future needs, in the absence of major capex plans.

Key weaknesses

Leasing risk pertaining to balance area

Leasing risk persists for balance additional area. While CARE Ratings takes note of several EOIs received from prospective tenants, timely conclusion of these deals and receipt of lease premium shall be critical for reduction in its debt and maintaining adequate liquidity profile in the long run.

Execution risk associated with balance capex though plans to undertake this is deferred

Post conversion of SEZ type from petrochemical segment to multi product, MSEZL started focusing on pharma and food processing companies. To cater these industry requirements and supplement existing infrastructure facility, the company has taken up additional capex to Fly over Across Konkan Railway Corporation Limited (KRCL), common effluent treatment plant, and hazardous waste management among others. The company has so far funded capex out of internal accruals, it has decided to defer the residual capex plans till availability of adequate funding and sufficient demand for such infrastructure.

Applicable criteria

[Definition of Default](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Rating Watch](#)

Service Sector Companies
 Financial Ratios – Non financial Sector
 Parent Subsidiary JV Linkages

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Consumer discretionary	Realty	Realty	Real estate related services

MSEZL incorporated in 2006 is a special purpose vehicle (SPV) co-promoted by ONGC (26%), IL&FS (50%), KIADB (23%) and balance by others. MSEZL has set up a multi-product SEZ at Mangaluru, Karnataka. SEZ is spread across 1,620 acres with 1,075 acres of leasable area out of which ~85% is leased out. Further the company has also leased 43.25 acres outside the SEZ land which adds to the overall lease area. Project implementation started on February 24, 2006, and MSEZL declared commercial operations date (COD) on April 01, 2015.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)
Total operating income	203.63	179.68
PBILDT	82.61	80.18
PAT	7.19	8.72
Overall gearing (times)^	NM	NM
Interest coverage (times)	2.05	2.02

A: Audited; NM: Not Meaningful; Note: 'the above results are the latest financial results available'

^Company is amortizing one-time non-refundable customer advances received over the period of lease agreement. Including these customer advances as part of net worth, overall gearing would be 0.47x as on March 31, 2024. (PY: 0.58x)

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

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

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

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

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 and Rating Outlook
Fund-based - LT-Term Loan		-	-	31-03-2032	307.10	CARE AA-; Stable

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	Fund-based - LT-Term Loan	LT	307.10	CARE AA-; Stable	-	1)CARE A+; Positive (28-Sep-23)	1)CARE A+; Stable (30-Dec-22)	1)CARE A; Stable (03-Jan-22)

LT: Long term;

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

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Term Loan	Simple

Annexure-5: Lender details

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

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

Contact Us

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About us:

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