ONGC Petro additions Limited (Revised)

September 26, 2022

Rating

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Compulsorily Convertible Debentures (CCDs) @	492.00	CARE AAA (CE); Stable [Triple A (Credit Enhancement); Outlook: Stable]	Reaffirmed
Total Long-Term Instruments	**492.00 (₹ Four Hundred Ninety-Two Crore Only)**		

Details of instruments/facilities in Annexure-1.

@ The CCDs carry a mandatory put option on Oil and Natural Gas Corporation Limited (ONGC) at the end of one month prior to the scheduled tenure of the instrument. ONGC's obligation under the put option would be unconditional and irrevocable. The CCDs are also backed by an undertaking from ONGC as per which ONGC shall unconditionally and irrevocably ensure to fund the service account for coupon payments, on or before the relevant coupon payment date, in case ONGC Petro additions Limited (OPaL) is unable to do so.

Unsupported Rating	**CARE AA (Double A) [Assigned]**

Note: Unsupported Rating does not factor in the explicit credit enhancement.

Detailed rationale and key rating drivers for the credit enhanced (CE) debt

The rating assigned to the long-term compulsorily convertible debentures (CCDs) of ONGC Petro additions Limited (OPaL) is backed by an irrevocable and unconditional undertaking from ONGC to buy back CCDs from the investors prior to the expiry of 72nd month from the deemed date of allotment (i.e., March 28, 2018). 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.

CARE Ratings Limited (CARE Ratings) notes the modifications made in the terms of the ₹492 crore CCDs issued by OPaL, with the consent of the investor before the put option exercise date. The aforementioned CCDs' tenure has been extended by 18 months from 54 months to 72 months from the deemed date of allotment. Besides, the CCDs now carry 7.18% p.a. coupon rate payable semi-annually and have conversion date of March 28, 2024. There is no change in the undertaking from ONGC acting as the sponsor to the issue.

Detailed 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), experienced management and its strategic importance to the GoI as the company plays a key role in the energy security for the country. ONGC's credit profile further derives comfort from its dominant position and a long track record in the domestic oil & gas exploration and production (E&P) industry and its experienced and professional management. Furthermore, ONGC derives strength from its sound and resilient profitability margins backed by robust E&P infrastructure and proven technical capabilities with presence across the hydrocarbon value chain, presence in downstream activities through subsidiaries and its comfortable financial risk profile marked by low gearing, healthy debt metrics and strong liquidity position.
ONGC's credit profile, however, remain susceptible to the inherent risk related to E&P business, regulatory and geo-political risk for overseas operations, and large capex requirements to replace reserves.

Detailed rationale and key rating drivers of OPaL (for unsupported rating)

The unsupported rating assigned to the CCDs of OPaL factors in the stated intent of ONGC to increase its shareholding in the company from the existing level (49.36%, as on March 31, 2022) in due course, along with

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

managerial and financial support provided by ONGC and operational linkages arising from long-term supply arrangement of feedstock with ONGC. The rating also takes cognisance of OPaL's 1.1 million metric tonnes per annum 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. The ratings are, however, constrained by the company's moderate financial risk profile marked by leveraged capital structure and reliance on replacement of debt, along with the commoditised nature of petrochemical business with inherently fluctuating raw material as well finished product prices and resultant volatility in the operating margins.

Rating sensitivities (for CE Rating)

Positive factors – Factors that could lead to positive rating action/downgrade: Not applicable

Negative factors – Factors that could lead to negative rating action/downgrade:

- Reduction in shareholding of GoI below 51%.
- Higher-than-expected debt-funded capital expenditure or acquisition thereby resulting in consolidated overall gearing beyond 1.0x on a sustained basis.
- Sustained decrease in reserve replacement ratio below 1.0x.

Detailed description of the key drivers of ONGC's credit profile

Key rating strengths

Strong parentage and strategic importance to GOI: ONGC, a Maharatna 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. As on June 30, 2022, the GoI held a 58.89% stake in the company. ONGC continues to have a high strategic importance for the GoI, as a key player in ensuring energy security for the country, given it is the largest oil & gas company of India. Besides, ONGC plays a crucial role in implementation of GoI policies in the oil & gas sector, with its presence across the hydrocarbon value chain. The company is the country's largest oil and gas producer with a share of nearly 77% 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. ONGC's importance to the GoI is further supported on account of significant taxes and dividend paid by it to the exchequer.

Experienced management: ONGC is managed by experienced team of management. Mr. Rajesh Kumar Srivastava is the Director (Exploration) of ONGC as well as is handling additional charge of Chairperson and Managing Director (CMD) of the company. He has over 36 years of experience and is an expert in up-stream hydrocarbon exploration from well site operations, development geology, seismic data interpretation to monitoring and planning of exploration. He took additional charge of the post on September 1, 2022. Mr Om Prakash Singh, Director (T&FS), is a mechanical engineer with more than 34 years of experience, Mr Singh has built a deep industry understanding and proven management experience across the technical and commercial roles he undertook during his career. Mr Anurag Sharma, Director (Onshore), has a career spanning over 36 years in the company in various positions including those of asset manager of Cauvery Asset and has made major contributions in business development and project management for ONGC Videsh. Furthermore, the senior management of the company has vast experience in the oil and gas industry.

Dominant market position backed by large crude oil reserves: ONGC, as India's largest oil and gas E&P company, has had a dominant position historically and continues to maintain its position even after the introduction of New Exploration and Licensing Policy (NELP) and thereafter Hydrocarbon Exploration and Licensing Policy (HELP), which increased private participation in the oil and gas sector of the country. 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. It has declared total 4 discoveries (2 in onland, 2 in offshore) during FY22 (refers to the period April 1 to March

31) in its operated acreages. As a result, in FY22, the company has added 40.82 Million Metric Tonne Oil Equivalent (MMTOE) reserves (2P) on standalone basis and 73.18 MMTOE on group basis. Thus, the company had Reserve Replacement Ratio (RRR) of 1.01 during FY22 (PY: 1.2) which has remained at/above unity for the 16th consecutive year thereby reflecting ONGC's strong exploratory capability and healthy long-term revenue visibility.

Robust infrastructure and proven technical capabilities: Oil & gas industry is a 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 and other infrastructure located throughout the principal oil and gas-producing regions of India. During FY22, ONGC drilled 78 exploratory wells as compared to 100 exploratory wells drilled in FY21.

Presence across the hydrocarbon value chain: With its four direct subsidiaries, six joint ventures (JVs) and three associates, ONGC is present across the hydrocarbon value chain with operations in refining, petrochemicals, and 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) and Hindustan Petroleum Corporation Ltd (HPCL). Around 85% of revenue of ONGC (consolidated) is from refining and marketing segment in FY22 (PY: 87%).

Sizable scale of operations and resilient profitability margins: The consolidated TOI of the company has improved by ~47.52% to Rs. 5,39,199 crore in FY22. Additionally, the company earned PBILDT margins of 16.19% in FY22 as against 15.90% in FY21, thus, witnessing an increase of 29 bps primarily on account of improved realizations due to higher crude oil and gas prices. Consequently, the company earned a PAT margin of 9.14% in FY22 as against 5.78% the previous year. Going forward, the company is likely to sustain its robust operating profile. However, the impact of government regulations such as recent imposition of windfall taxes on the company's profitability profile shall remain key monitorable.

Liquidity: Strong

The liquidity of ONGC remained strong with free cash and cash equivalents and bank balance of Rs. 6840.94 crore as on March 31, 2022 (PY: Rs. 7192.26 crore). Furthermore, ONGC had unutilized fund-based facilities of Rs.8,000 crore as on March 31, 2022. The company has envisaged to earn healthy cash accruals against scheduled term debt repayments in FY23. ONGC derives financial flexibility from its low gearing ratio and parentage of GoI with strategic importance and 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 rating weaknesses:

Risk related to E&P business and crude oil: In addition to a highly capital-intensive activity, E&P business has long gestation period. The exploration activity involves high uncertainty with respect to 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 the crude oil may hamper the profitability of the company. Prices of crude oil depend on various factors including policies by major producers of crude oil, global as well as regional demand variations, geopolitical situation and market sentiment. After a range-bound couple of years of crude price movement, the crude price (Brent) has risen sharply since early November 2021 and has breached ~$100/bbl. The rise was on account of increase in demand for petroleum products exacerbated by supply constraints due to the ongoing Russia-Ukraine conflict.

Geo-political risk associated with international venture: ONGC Videsh Limited (OVL) undertakes exploration and production activities mainly in Commonwealth of Independent States (CIS) and countries in Middle East and North Africa (MENA) region. ONGC's investments in OVL are prone to changes in policy regime; fiscal law changes etc. since some of the countries have history of unstable regimes. Unstable government or unfavourable policies such as resource nationalization adds to the geopolitical risks in the host countries.

Large capex requirements: During the last couple of years ended FY22, the average capex of ONGC (standalone) per annum has been in the range of Rs 30,000 crore. The same trend is expected to continue in the ensuing years. The capex in FY23 is expected to be around Rs. 29,950 crore to be funded partially from debt and internal accruals. 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 sharing of profits of PSUs through higher fiscal levies, higher dividend declaration or providing discounts to oil marketing companies (OMCs) which has potential to impact the income and accruals of ONGC.

Analytical approach

Credit enhanced rating: Irrevocable and unconditional undertaking from ONGC to purchase the CCDs from the investors on exercise of put-option. Furthermore, for analysing ONGC, CARE Ratings has considered the consolidated financials of ONGC with notching based on the parentage of GoI and strategic importance of the company for GoI.
Unsupported rating: Standalone along with notching up for linkages with its parent company, ONGC.

Applicable criteria

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

About the CE provider: ONGC

ONGC is a Maharatna PSU, with the GoI holding 58.89% stake in the company as on June 30, 2022. ONGC is India's largest E&P player and is present across the hydrocarbon value chain. ONGC's domestic product 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 liquefied petroleum gas (LPG), superior kerosene oil (SKO), naphtha and C2/C3. The company undertakes E&P activities in countries, such as Azerbaijan, Myanmar, Vietnam, Iran, Iraq, Syria, UAE, Libya, Mozambique, South Sudan, etc., through its wholly owned subsidiary, ONGC Videsh Limited (OVL). Also, it has integrated downstream activities in India, with two subsidiaries, viz., Mangalore Refinery & Petrochemicals Ltd (MRPL) and Hindustan Petroleum Corporation Limited (HPCL) with combined capacity of over 31 MMTPA refinery and extensive network of over 20,000 retail outlets. The company is currently the top lube marketer and second-largest marketer in LPG sales in India.
The presence in refining and marketing segment helps ONGC limit the volatility of earnings. Besides, transportation of petroleum products is being catered through Petronet MHB Ltd (PMHBL), which owns and operates a multiproduct petroleum pipeline to transport MRPL's refinery products to various parts of Karnataka.

Brief Financials – Consolidated (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	Q1FY23 (UA)
Total operating income	3,69,796	5,39,199	42,321
PBILDT	58,806	87,311	25,488
PAT	21,360	49,294	15,206
Overall gearing (times)	0.57	0.44	NA
Interest coverage (times)	11.58	15.33	NA

A: Audited; UA: Unaudited; NA: Not Available

About the company: OPaL

Incorporated in November 2006, OPaL operates a greenfield 1.1 MMTPA petrochemicals complex in SEZ at Dahej, Gujarat. OPaL is promoted by two Maharatna PSUs, viz., ONGC and GAIL and co-promoted by Gujarat State Petroleum Corporation Limited. The project comprises a dual feed-cracker with capacity to produce 1.1 MMTPA of ethylene and 0.40 MMTPA of propylene as petrochemical feedstock to downstream polymer units in the Dahej SEZ. The project commenced its commercial production since 2017. The company uses ethane (C2), propane (C3), butane (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 – Standalone (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	Q1FY23 (UA)
Total operating income	11,533.70	16,065.21	2170.37
PBILDT	2882.82	2,560.82	174.35
PAT	-797.78	-534.66	-1101.82
Overall gearing (times)	5.20	6.78	NA
Interest coverage (times)	1.74	1.38	0.15

A: Audited; UA: Unaudited; NA: Not Available

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years: Please refer 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 various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (23-03-18)	Coupon Rate (%)	Maturity Date (2803-2024)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Debentures Compulsorily Convertible Debentures	INE163N08214	28-03-2018	7.18%	March 28, 2024	492.00	CARE AAA (CE); Stable
Un Supported Rating		-	-	-	0.00	CARE AA

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 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Debentures Compulsorily Convertible Debentures	LT	5615.00	CARE AAA (CE); Stable	1)CARE AAA (CE); Stable (28-Jul-22) 2)CARE AAA (CE); Stable (28-Jun22)	1)CARE AAA (CE); Stable (29-Jul-21)	1)CARE AAA (CE); Stable (22-Dec20) 2)CARE AAA (CE); Stable (30-Jul-20)	1)CARE AAA (CE); Stable (26-Jul-19) 2)CARE AAA (SO); Stable (11-Jun19)
2	Debentures Compulsorily Convertible Debentures	LT	492.00	CARE AAA (CE); Stable	1)CARE AAA (CE); Stable (28-Jul-22)	1)CARE AAA (CE); Stable (29-Jul-21)	1)CARE AAA (CE); Stable (18-Mar21) 2)CARE AAA (CE); Stable (30-Jul-20)	1)CARE AAA (CE); Stable (26-Jul-19)
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)	1)CARE AAA (CE); Stable (26-Jul-19)
4	Debentures-Non Convertible Debentures	LT	433.40	CARE AAA (CE); Stable	1)CARE AAA (CE); Stable (28-Jul-22)	1)CARE AAA (CE); Stable (29-Jul-21)	1)CARE AAA (CE); Stable (30-Jul-20)	1)CARE AAA (CE); Stable (24-Feb20) 2)Provisional CARE AAA (CE); Stable (16-Dec19) 3)Provisional CARE

								AAA (CE); Stable (22-Oct19) 4)Provisional CARE AAA (CE); Stable (26-Jul-19) 5)Provisional CARE AAA (SO); Stable (01-Apr19)
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)	1)CARE AAA (CE); Stable (26-Jul-19) 2)CARE AAA (SO); Stable (01-Apr19)
6	Debentures-Non Convertible Debentures	LT	435.00	CARE AAA (CE); Stable	1)CARE AAA (CE); Stable (28-Jul-22)	1)CARE AAA (CE); Stable (29-Jul-21)	1)CARE AAA (CE); Stable (30-Jul-20)	1)CARE AAA (CE); Stable (22-Oct19)
7	Un Supported Rating	LT	-	-	-	1)Withdrawn (29-Jul-21)	1)CARE AA (30-Jul-20)	1)CARE AA-; Stable (24-Feb20) 2)CARE AA-; Stable (22-Oct19)
8	Debentures-Non Convertible Debentures	LT	371.10	CARE AAA (CE); Stable	1)CARE AAA (CE); Stable (28-Jul-22)	1)CARE AAA (CE); Stable (29-Jul-21)	1)CARE AAA (CE); Stable (30-Jul-20)	1)CARE AAA (CE); Stable (16-Dec19)
9	Debentures-Non Convertible Debentures	LT	465.50	CARE AAA (CE); Stable	1)CARE AAA (CE); Stable (28-Jul-22)	1)CARE AAA (CE); Stable (29-Jul-21)	1)CARE AAA (CE); Stable (30-Jul-20)	1)CARE AAA (CE); Stable (16-Dec19)
10	Debentures-Non Convertible Debentures	LT	475.00	CARE AAA (CE); Stable	1)CARE AAA (CE); Stable (28-Jul-22)	1)CARE AAA (CE); Stable (29-Jul-21)	1)CARE AAA (CE); Stable (30-Jul-20)	1)CARE AAA (CE); Stable (24-Feb20)
11	Debentures-Non Convertible Debentures	LT	-	-	-	-	1)Withdrawn (22-Oct20)	1)Provisional CARE AAA (CE); Stable

							2)Provisional CARE AAA (CE); Stable (30-Jul-20)	(17-Mar-20)
12	Debentures-Non Convertible Debentures	LT	4700.00	CARE AA; Stable	1)CARE AA; Stable (28-Jul-22)	1)CARE AA; Stable (29-Jul-21)	1)CARE AA; Stable (14-Sep20)	-
13	Un Supported Rating	LT	0.00	CARE AA	1)CARE AA (28-Jul-22) 2)CARE AA (28-Jun22)	-	-	-
14	Un Supported Rating	LT	0.00	CARE AA				

*Long term/Short term.

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

Name of the Instrument	Detailed Explanation
A. Financial covenants	**NA**
I.	
II.	
B. Non-financial covenants	**NA**
I.	
II.	

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Debentures-Compulsorily Convertible Debentures	Complex
2	Un Supported Rating	Simple

Annexure-5: Bank lender details for this company

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

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

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