ONGC Petro additions Limited

June 28, 2022

Rating

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Compulsorily convertible debentures (CCDs) @	5,615.00	CARE AAA (CE); Stable [Triple A (Credit Enhancement); Outlook: Stable]	Reaffirmed
Total long-term instruments	**5,615.00 (₹ Five thousand six hundred fifteen crore only)**		

Details of instruments/facilities in Annexure-1.

@ Backed by credit enhancement in the form of an irrevocable and unconditional undertaking from Oil and Natural Gas Corporation Limited (ONGC; rated 'CARE AAA; Stable/CARE A1+') to purchase these CCDs from the investors on exercise of put-option and to fund the coupon service account on or before payment date.

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 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 90th month from the deemed date of allotment (ie, July 02, 2016) and a legally-binding undertaking to timely meet the coupon payments.

CARE Ratings Limited (CARE Ratings) notes the modifications made in the terms of the ₹5,615 crore CCDs issued by OPaL, with the consent of the investor and before the put option exercise date of June 02, 2022. The aforementioned CCDs' tenure has been extended by 18 months from 72 months to 90 months from the deemed date of allotment. Besides, the CCDs now carry 7.12% p.a. coupon rate payable semi-annually and have conversion date of January 02, 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 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. The ratings further derive comfort from ONGC's dominant position and a long track record in the domestic exploration and production (E&P) industry and its experienced and professional management. Furthermore, the ratings also derive 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 and its comfortable financial risk profile marked by low gearing, healthy debt metrics and strong liquidity position.

The ratings, 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, 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, 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.

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

Rating sensitivities (OPaL)

Positive factors – Factors that could lead to positive rating action/upgrade:

- Sustenance of profit before interest, lease rentals, depreciation and taxation (PBILDT) margin above 25% on a capacity utilisation level above 90%.
- Sustained improvement in the capital structure leading to overall gearing below 1x.

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

- Weakening in credit profile of ONGC and any subsequent decline in the stake of, or institutional support from, ONGC.
- Lower-than-expected operational efficiency leading to sustained deterioration in the PBILDT margin below 10%.
- Any large debt-funded incremental capex leading to further deterioration in the overall gearing.

Detailed description of the key rating drivers (of ONGC)

Key rating strengths

Strong parentage and strategic importance to 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. As on March 31, 2022, the GoI held a 58.91% stake in the company. It continues to have a singularly strategic importance for the GoI, as a key player in ensuring energy security for the country, given it is the largest oil and gas company of India. Besides, ONGC plays a crucial role in implementation of GoI policies in the oil and 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 joint ventures [JVs]). It is also a significant producer of value-added products such as liquefied petroleum gas (LPG), superior kerosene oil (SKO), naphtha and C2/C3. ONGC's significance to the GoI is further supported on account of the taxes paid by it to the exchequer.

Experienced management: ONGC is managed by an experienced team of management. Dr Alka Mittal, is a post graduate in Economics, MBA (HRM) and Doctorate in Commerce and Business Studies. She took charge of the post of Chairman and Managing Director (CMD) on April 01, 2022. Mr Rajesh Kumar Srivastava, Director (Exploration and offshore), has over 35 years of experience. Mr Srivastava is an expert in up-stream hydrocarbon exploration from well site operations, development geology, seismic data interpretation to monitoring and planning of exploration. Mr Om Prakash Singh, Director (T&FS), is a mechanical engineer with more than 32 years of experience, and 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 maintained its 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 10 discoveries (three onland and seven offshore) during FY21 (refers to the period April 1 to March 31) in its operated acreages. Out of these, six are prospects (one onland and five offshore) and four are pools (two onland and two offshore). As a result, in FY22, the company has added around 44 million metric tonne oil equivalent (MMTOE) reserves (2P) on standalone basis and around 56 MMTOE on group basis. Thus, the company was able to maintain the Reserve Replacement Ratio (RRR) of 1.19 during FY21 (PY: 1.19), which has remained above unity for the 15th consecutive year thereby reflecting ONGC's strong exploratory capability and healthy long-term revenue visibility.

Robust infrastructure and proven technical capabilities: The oil and 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 with 100 exploratory wells drilled in FY21.

Presence across the hydrocarbon value chain: With its four direct subsidiaries, 28 JVs and 13 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 integrated forward 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 87% of the revenue of ONGC (consolidated) is from refining and marketing segment in FY21 (PY: 80%).

Improvement in income and profitability margins: The consolidated total operating income of the company has improved by around 48% to ₹531,740 crore in FY22. ONGC recorded its highest ever revenue and profit in FY22. Additionally, the company earned PBILDT margins of 16.19% in FY22 as against 16.12% in FY21, thus, witnessing an increase of 7 bps primarily on account of improved margins in refining and higher crude oil prices. The company earned a profit after tax (PAT) margin of 9.15% in FY22 as against 5.84% the previous year.

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 the 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. The 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 in March 2022 and is as high as around US$ 110/bbl. The rise was triggered on account of a demand and supply shortage in the market due to the geopolitical situation arising from the ongoing Russia-Ukraine war.

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 the Middle East and North Africa (MENA) region. ONGC's investments in OVL are prone to changes in the policy regime, fiscal law changes, etc., since some of the countries have history of unstable regimes. Unstable government or unfavourable policies such as resource nationalisation adds to the geopolitical risks in the host countries.

Large capex requirements: During the past couple of years, the average capex of ONGC (standalone) per annum has been in the range of ₹30,000 crore. The same trend is expected to continue in the ensuing years. The capex in FY23 is expected to be around ₹30,000 crore for enhanced production targets set by the company. The capex is 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, and dividend payments have a significant bearing on ONGC's profitability, cash flows and liquidity position. During elevated prices of crude oil, 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 may impact the income and accruals of ONGC.

Liquidity: Strong

The liquidity position of ONGC remained strong with a total free cash and current investments of around ₹26,765 crore as on March 31, 2022 (PY: ₹26,190.67 crore). Furthermore, ONGC has unutilised fund-based facilities of ₹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 further derives financial flexibility from its low gearing ratio and parentage of GoI with strategic importance and dominant market position, which provides it easy access to funds at attractive rates.

Analytical approach:

Credit enhanced rating: Irrevocable and unconditional undertaking of ONGC. 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 ONGC.

Applicable criteria

Policy on default recognition
Factoring linkages parent Sub JV group
Factoring linkages – Government support
Financial ratios – Non-financial sector
Liquidity analysis of non-financial sector entities
Rating credit enhanced debt
Rating outlook and credit watch
Short-term instruments
Manufacturing companies

About the company: ONGC

ONGC is a Maharatna PSU, with the GoI holding 58.91% stake in the company as on March 31, 2022. ONGC is India's largest E&P player and is present across the hydrocarbon value chain. ONGC's domestic product including Issuer's 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 exploration and production 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 multi-product petroleum pipeline to transport MRPL Refinery's products to various parts of Karnataka.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (Ab.)	Q1__/ H1__/9M__
Total operating income	3,70,915	5,39,210	NA
PBILDT	59,808	87,311	NA
PAT	21,343	49,294	NA
Overall gearing (times)	0.54	0.43	NA
Interest coverage (times)	11.78	15.33	NA

A: Audited; Ab.: Abridged

About the company: OPaL

Incorporated in November 2006; ONGC Petro additions Limited (OPaL) operates a greenfield 1.1 MMTPA petrochemicals complex in SEZ at Dahej, Gujarat (the Project). OPaL is promoted by two Maharatna PSUs, viz., ONGC and GAIL. 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 (₹ crore)	March 31, 2021 (A)	March 31, 2022 (Ab.)	Q1__/ H1__/9M__
Total operating income	11,528	16,065	NA
PBILDT	2,877	2,561	NA
PAT	-798	-535	NA
Overall gearing (times)	4.76	5.67	NA
Interest coverage (times)	1.74	1.38	NA

A: Audited; Ab.: Abridged

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	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Debentures-Compulsorily convertible debentures	INE163N08206	July 02, 2016	7.12%	January 02, 2024	5615.00	CARE AAA (CE); Stable
Unsupported rating						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 (29-Jul-21)	1)CARE AAA (CE); Stable (22-Dec-20) 2)CARE AAA (CE); Stable (30-Jul-20)	1)CARE AAA (CE); Stable (26-Jul-19) 2)CARE AAA (SO); Stable (11-Jun-19)
2	Debentures-Compulsorily convertible debentures	LT	492.00	CARE AAA (CE); Stable	-	1)CARE AAA (CE); Stable (29-Jul-21)	1)CARE AAA (CE); Stable (18-Mar-21) 2)CARE AAA (CE); Stable (30-Jul-20)	1)CARE AAA (CE); Stable (26-Jul-19)
3	Debentures-Non-convertible debentures	LT	335.00	CARE AAA (CE); Stable	-	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 (29-Jul-21)	1)CARE AAA (CE); Stable (30-Jul-20)	1)CARE AAA (CE); Stable (24-Feb-20) 2)Provisional CARE AAA (CE); Stable (16-Dec-19) 3)Provisional CARE AAA (CE); Stable (22-Oct-19) 4)Provisional CARE AAA (CE); Stable (26-Jul-19) 5)Provisional CARE AAA (SO); Stable (01-Apr-19)
5	Debentures-Non-convertible debentures	LT	485.00	CARE AAA (CE); Stable	-	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-Apr-19)
6	Debentures-Non-convertible debentures	LT	435.00	CARE AAA (CE); Stable	-	1)CARE AAA (CE); Stable (29-Jul-21)	1)CARE AAA (CE); Stable (30-Jul-20)	1)CARE AAA (CE); Stable (22-Oct-19)
7	Unsupported rating	LT	-	-	-	1)Withdrawn (29-Jul-21)	1)CARE AA (30-Jul-20)	1)CARE AA-; Stable (24-Feb-20)

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
								2)CARE AA-; Stable (22-Oct-19)
8	Debentures-Non - convertible debentures	LT	371.10	CARE AAA (CE); Stable	-	1)CARE AAA (CE); Stable (29-Jul-21)	1)CARE AAA (CE); Stable (30-Jul-20)	1)CARE AAA (CE); Stable (16-Dec-19)
9	Debentures-Non-convertible debentures	LT	465.50	CARE AAA (CE); Stable	-	1)CARE AAA (CE); Stable (29-Jul-21)	1)CARE AAA (CE); Stable (30-Jul-20)	1)CARE AAA (CE); Stable (16-Dec-19)
10	Debentures-Non-convertible debentures	LT	475.00	CARE AAA (CE); Stable	-	1)CARE AAA (CE); Stable (29-Jul-21)	1)CARE AAA (CE); Stable (30-Jul-20)	1)CARE AAA (CE); Stable (24-Feb-20)
11	Debentures-Non-convertible debentures	LT	-	-	-	-	1)Withdrawn (22-Oct-20) 2)Provisional CARE AAA (CE); Stable (30-Jul-20)	1)Provisional CARE AAA (CE); Stable (17-Mar-20)
12	Debentures-Non-convertible debentures	LT	4700.00	CARE AA; Stable	-	1)CARE AA; Stable (29-Jul-21)	1)CARE AA; Stable (14-Sep-20)	-
13	Unsupported 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	Unsupported 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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About us:
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