Mangalore Refinery and Petrochemicals Limited

July 28, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Non-Convertible Debentures	5,000.00	CARE AAA; Stable (Triple A; Outlook: Stable)	Reaffirmed
Total Long-Term Instruments	**5,000.00 (₹ Five Thousand Crore Only)**		
Commercial Paper (Carved out) *	3,000.00	CARE A1+ (A One Plus)	Reaffirmed
Total Short-Term Instruments	**3,000.00 (₹ Three Thousand Crore Only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The reaffirmation of the ratings assigned to the debt instruments of Mangalore Refinery and Petrochemicals Limited (MRPL) continue to factor in its strong parentage with 71.63% of its equity held by Oil and Natural Gas Corporation Limited (ONGC, rated CARE AAA; Stable/CARE A1+), the company's strategic importance in ONGC's overall portfolio of hydrocarbon assets along with the managerial and financial support extended to the company by ONGC. Furthermore, the ratings factor in expected operational synergies consequent to the completion of merger of ONGC Mangalore Petrochemicals Limited (OMPL) with it. The ratings are also underpinned by company's strong asset profile given the superior processing capabilities of its refinery as reflected by high nelson complexity index, its experienced management team and favourable location, being close to the port. However, the ratings strengths are partially offset by the company's exposure to volatility in crude oil prices and crack spreads and the resultant impact on its gross refining margins (GRMs), its leveraged capital structure and its susceptibility to inherent regulatory risks.

Rating sensitivities

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

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

- Any significant reduction in MRPL's shareholding by ONGC or weakening of the linkages between MRPL and ONGC or deterioration in the credit profile of ONGC.
- Any significant debt funded capex leading to sustained pressure on its capital structure and debt coverage indicators
- Reduction in throughput or decline in GRMs on a sustained basis.

Detailed description of the key rating drivers

Key rating strengths

Strong parentage and support: MRPL has a strong parentage with 71.63% of its equity stake being held by ONGC and 16.96% by ONGC's another subsidiary Hindustan Petroleum Corporation Limited (a 'Maharatna' in petroleum refining sector). The company is of strategic importance to ONGC, being a key component in the downstream segment of its integrated oil and gas value chain. Besides strategic linkages, there are also strong management linkages between the two entities. Dr. Alka Mittal, Director (HR) of ONGC with additional charge of Chairperson and MD, is also the Chairperson on the Board of MRPL. The company also gets support in terms of managerial expertise from the senior management of ONGC. Apart from managerial and Board's support, ONGC has supported the company financially and MRPL has received loans in past for undertaking its capex plans at favorable interest rates. The company purchases around 10-15% of its crude oil requirement from ONGC. Furthermore, ONGC has extended guarantee to one of the foreign crude oil suppliers of the company with respect to the payments of MRPL's crude purchases.

Experienced management team: The company is being managed by professional and experienced management team which has relevant experience in the oil & gas industry. Dr. Alka Mittal (Chairperson of both MRPL and ONGC) is the first woman to hold the charge of full-time director in ONGC's history as Director (HR) from November 27, 2018. She is also a post-graduate in Economics, MBA (HRM) and Doctorate in Commerce and business studies. Mr. M. Venkatesh (Managing Director) is a Chemical Engineer having over three decades of experience in oil & gas sector. He is associated with MRPL since 1994 and has been involved in execution of all major projects. The senior management is supported by experienced and technically qualified professional in the operations of the company.

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

Location advantages of being a coastal refinery with proximity to port, and diversification benefits of erstwhile OMPL: MRPL is located on the western coast of the country, with its sourcing of crude as well as product exports being handled through the New Mangalore Port Trust. The location of the refinery provides it strategic advantages in terms of sourcing of crude oil, better suitability for export markets and provides a better reach in the southern part of domestic market. During FY22, MRPL sourced around 80% of its crude oil requirement through imports. It also derived around 35% of its revenue from exports during the year. However, it does suffer from asset concentration risk due to single location of its refinery; albeit it has adequate insurance cover. With the merger of OMPL with it, MRPL now has presence in the petrochemical business which is envisaged to lend benefits of forward integration to it.

Healthy throughput and improvement in GRMs: The company's throughput was severely impacted in FY21 due to sharp decrease in demand for petroleum products at the time of covid-19 pandemic induced lockdowns. However, it has reported a rebound in throughput during FY22 (refers to the period from April 1 to March 31) to 15.04 million tonnes (MTs) from 11.5 MTs in FY21. Accordingly, the capacity utilization (CU) also improved to 100.29% during FY22 from 76.70% in FY21. On account of improved CU along with higher crude prices, the company reported TOI of Rs. 69,830 crore during FY22 as against Rs. 31,959 crore during FY21. Also, MRPL's GRMs improved significantly to USD 8.72 per barrel in FY22 from USD 3.71 per barrel on the back of higher operating GRMs of USD 4.29 per barrel and substantial inventory gains. As a result, the PBILDT margin of the company improved at 7.21% in FY22 as against 2.18% reported in FY21. It reported PAT of Rs.2,955 crore in FY22 as against net loss of Rs. 761 Cr in FY21.
Furthermore, MRPL's refinery has a high Nelson Complexity Index of 10.6 which enables it to process heavy oil with high quality. It can process crude oil of various API and thus deliver a variety of products such as High-Speed Diesel (HSD), Petrol /Motor spirit (MS), Aviation Turbine Fuel (ATF) etc.

Liquidity: Strong

MRPL derives significant financial flexibility from its parentage of ONGC which provides it easy access to funds at attractive rates. The company has a working capital limit of Rs.900 crore which is broadly unutilized. The company is expected to have sufficient accruals to meet its debt repayment obligations during FY23. It has capex requirements of nearly Rs.950 crore for which debt has already been tied up.

Key rating weaknesses

Leveraged capital structure: The company has substantially high debt levels although overall gearing company has reduced to 2.96x as on March 31, 2022 (PY: 5.69x) due to accretion of profit to net worth and scheduled repayment of term debt coupled with lower working capital utilization on the back of healthy operational cash flow during FY22. The interest coverage ratio has improved to 4.17x in FY22 due to increase in PBILDT and lower interest cost. Total debt to PBILDT also improved to a moderate level of 4.23x in FY21 (PY: 34.53x) backed by substantial increase in profitability coupled with some reduction in debt levels. Nonetheless, it is expected that the debt levels will remain elevated as the company has continuous capex requirements to maintain and upgrade the refinery resulting in lower free cash flows.

Exposure to fluctuation in crude oil prices: MRPL's profitability margins are exposed to sharp movements in the crude oil prices which depend on various factors including policies by major producers of crude oil, demand variations, geopolitical situations and market sentiment. Consequently, refinery players are known to be price takers as they have no control over the two key drivers which are the price of crude and the price of refined products. A sharp fall in crude oil prices leads to inventory losses for refiners leading to lower GRM thereby impacting their profitability. Consequently, MRPL had witnessed negative GRMs in FY20 and lower GRM of USD 3.71 per barrel in FY21, which though improved to USD 8.72 per barrel during FY22.

Exposure to foreign exchange fluctuation risk: MRPL imports around 80% of the raw material (crude) requirement. It secures its crude supply position by entering into term contracts mainly with national oil companies from various regions. The payment for the import of oil crude is dollar-denominated. The company does not hedge its forex exposures and relies primarily on its export income to act as natural hedge along with import parity pricing for the domestic sales. The refinery exported around 20% of its products in FY22 (PY: 33%). The company is further exposed to currency fluctuation risk through foreign currency term loans availed by the company.

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 MRPL'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 MRPL.

Analytical approach: Consolidated along with notching based on linkages with its parent, ONGC (rated CARE AAA; Stable/ CARE A1+). The entities considered in MRPL's consolidated financials are placed in **Annexure 5**.

Applicable criteria

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

About the company

MRPL is a schedule 'A' Miniratna, Central Public Sector Enterprise (CPSE) under the Ministry of Petroleum & Natural Gas. MRPL is a subsidiary of ONGC with 71.63% shareholding as on June 30, 2022. Further, HPCL held 16.96% shareholding as on June 30, 2022. MRPL is a standalone refiner located in north of Mangaluru city, in Dakshina Kannada District of Karnataka State (India) with a 15.0 MMTPA refinery to process crude oil of various API. Apart from the refinery capacity, the company is also into manufacturing of value-added petrochemical product and has a polypropylene plant. It sources its crude oil requirement from India and various national oil companies of exporting countries on term basis and from open market on spot basis. It sells mainly to PSU oil marketing companies (OMCs) as well as derives income through exports. The company also has 36 retail outlets in Karnataka and Kerala states at present.

Brief Financials (₹ crore)	March 31, 2021 (Abr.)	March 31, 2022 (Abr.)	Q1FY23/ H1FY23/9MFY23
Total operating income	31,959	69,830	NA
PBILDT	697	5033	NA
PAT	-761	2955	NA
Overall gearing (times)	5.69	2.96	NA
Interest coverage (times)	1.26	4.17	NA

Abr.: Abridged, also FY21 accounts are restated factoring the merger of OMPL in to MRPL

Status of non-cooperation with previous CRA: NA

Any other information: NA

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-Non-Convertible Debentures	INE103A08043	December 29, 2020	6.18%	December 29, 2025	1217.00	CARE AAA; Stable
Debentures-Non-Convertible Debentures	INE103A08050	December 29, 2021	7.48%	April 14, 2032	1200.00	CARE AAA; Stable
Debentures-Non-Convertible Debentures		-	-	Proposed 5 years	2583.00	CARE AAA; Stable
Commercial Paper-Commercial Paper (Carved out)*	-	-	-	7-364 days	3000.00	CARE A1+

* no amount outstanding

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	Commercial Paper-Commercial Paper (Carved out)	ST	3000.00	CARE A1+	-	1)CARE A1+ (29-Jul-21) 2)CARE A1+ (03-May-21)	1)CARE A1+ (15-May-20)	-
2	Debentures-Non Convertible Debentures	LT	5000.00	CARE AAA; Stable	-	1)CARE AAA; Stable (29-Jul-21)	1)CARE AAA; Stable (24-Dec-20)	-

*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
B. Non-financial covenants	NA

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

Sr. No.	Name of Instrument	Complexity Level
1	Commercial Paper-Commercial Paper (Carved out)	Simple
2	Debentures-Non Convertible Debentures	Simple

Annexure-5: List of subsidiaries/JVs

Name	Type
Shell MRPL Aviation Fuels & Services Ltd.	Joint Venture

Annexure-6: 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.

Contact us

Media contact
Name: Mradul Mishra
Phone: +91-22-6754 3596
E-mail: mradul.mishra@careedge.in

Analyst contact
Name: Ajay Kumar Dhaka
Phone: + 011-45333200
E-mail: ajay.dhaka@careedge.in

Relationship contact
Name: Swati Agrawal
Phone: +91-11-4533 3200
E-mail: swati.agrawal@careedge.in

About us:
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