

Mangalore Refinery and Petrochemicals Limited (Revised)
July 29, 2021

Ratings

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

Details of instruments/Facilities in Annexure -I

**carved out sanctioned working capital limits*

Detailed Rationale & Key Rating Drivers

The reaffirmation to the ratings assigned to debt instruments of Mangalore Refinery and Petrochemicals Limited (MRPL) factors in the strong parentage with 71.63% of its equity held by Oil and Natural Gas Corporation Ltd (ONGC, rated CARE AAA; Stable/CARE A1+). The ratings also take cognizance of MRPL's strategic importance in ONGC's portfolio of assets and the managerial and financial support extended to the company by ONGC in past. Furthermore, the ratings factor in expected operational synergies subsequent to the completion of merger of ONGC Mangalore Petrochemicals Limited (OMPL). The ratings are also underpinned by company's strong asset profile given the superior processing capabilities of its refinery, its experienced management team and location advantage. However, the rating strengths are offset by exposure to volatility in crude oil prices and resultant impact on gross refining margins, foreign currency fluctuation risk and substantial refinancing risks due to modest debt metrics albeit risk is partially mitigated due to strong refinancing capability demonstrated by the company over the year.

Rating Sensitivities

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

- Any significant changes in shareholding by ONGC or deterioration in the credit profile of ONGC
- Continued losses or higher than expected debt funded capital expenditure plans leading to a pressure on the capital structure

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 held by ONGC Limited and 16.96% by Hindustan Petroleum Corporation Limited (a 'Maharatna' in petroleum refining sector). The company is of strategic importance to ONGC, being a key component of its integrated oil and gas value chain. Besides strategic linkages, there are also strong management linkages between the two entities. Mr. Subhash Kumar, Director (Finance) of ONGC with additional charge of Chairman and MD, is also the chairman 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 supports the company financially and has received loans in past for undertaking its capex plans at favorable interest rates. The company purchases around 10% 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 crude purchases.

Experienced management team: The company is being managed by professional and experienced management team which has a relevant experience in the industry. Mr. Subhash Kumar (Chairman of both MRPL and ONGC) is an industry veteran with over 36 years of experience in diverse activities across the Exploration & Production (E&P) value chain. He has played key role in evaluation and acquisition of many overseas assets leading to expansion of ONGC's footprint. He is also a Fellow Member of ICMAI and also Associate Member of ICSI. 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 executed all major projects. The senior management is supported by experienced and technically qualified professional in the operations of the company.

Location advantages of being a coastal refinery with proximity to port: 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.

Acquisition of OMPL to create synergies: MRPL has completed the acquisition of 124.7 crore equity shares of OMPL from ONGC (shareholding of 49%) at a price of Rs. 9.76/share for a cash consideration of Rs. 1,217 Crore increasing the shareholding of the company from 51% to 100%. The acquisition is expected to create operational synergies in the long run and also provide tax advantages with respect to absorption of losses at OMPL. OMPL was set up for value addition of excess naphtha and aromatic streams available from the MRPL refinery.

Key Rating Weaknesses

Decline in income and profitability margins: The company reported total income of Rs. 32,058 crore during FY21 as against Rs. 50,545 crore during FY20 due to low capacity utilization and weak core GRMs attributable to muted demand which has resulted into lower realizations. The PBILDT margin of the company stood improved yet low at 2.17% in FY21 as against operational losses reported in FY20 as operations were impacted initially due to water scarcity faced by the refinery complex and later due to landslide. MRPL reported net loss of Rs.765 crore in FY21 as against loss of Rs.4,039 Cr in FY20.

Leveraged capital structure and refinancing risk: The overall gearing of the company has increased to 5.89x as on March 31, 2021 (PY: 2.82x) due to increased borrowing and continued losses at PAT level coupled with impact of acquisition of stake of ONGC Limited in OMPL, on net worth of the company. The interest coverage ratio has increased to 1.26x in FY21 due to increase in PBILDT and lower interest cost. MRPL has significant debt outstanding on its books which has increased due to increase in working capital borrowings, debt for acquisition of OMPL and refinancing to meet its repayment obligations due to subdued operating performance. Going forward, in view of weak debt metrics, the company's ability to timely refinance its debt shall remain crucial for its credit profile and will be a key monitorable.

Exposure to changes 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 sharp fall in GRM from USD 4.06 per barrel in FY19 to USD -0.23 per barrel during FY20 which has, however, improved to USD 3.71 per in FY21 barrel but continued to remain low amid low-capacity utilization levels attributable to covid-19 induced disruption in demand. Overall utilization levels remained at around 77% in FY21 as compared to ~94% in FY20.

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 FY21 (PY: 33%). The company is further exposed to currency fluctuation risk through foreign currency term loans availed by the company.

Ongoing capex poses project risk: During FY20, MRPL has incurred major capex on the BS-VI upgradation project (total project cost is around Rs. 1800 crore) with around physically completion of 90% and started dispatching BS-VI compliant HSD and MS from Q3FY20. Further, in order to mitigate the risk of river water as a single source of water, a desalination plant is being set up with an investment of around Rs. 621 Crore. Till FY21, 71% of capex towards desalination plant is completed. This will put behind the risk of plant shut down due to water shortage as witnessed by MRPL during Q1FY20. In FY22, the company plans a capex of around Rs.900 crore towards above projects and towards other regular maintenance capex.

Liquidity analysis- Adequate

MRPL derives 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 with an average working capital utilization of around 10%. It mostly relies on refinancing of debt to meet the scheduled debt obligations due to weak operating performance which results in low cushion available with the company to meet the same.

Analytical approach: Consolidated with factoring business, management, and financial linkages with ONGC.

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Criteria for Short Term Instruments](#)

[Rating Methodology – Consolidation](#)

[Rating Methodology – Parent Sub JV Group](#)

[Rating Methodology - Manufacturing Companies](#)

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

[Financial ratios – Non-Financial Sector](#)

About the Company

Mangalore Refinery and Petrochemicals Limited (MRPL) is a schedule 'A' Miniratna, Central Public Sector Enterprise (CPSE) under the Ministry of Petroleum & Natural Gas. MRPL is a subsidiary of Oil and Natural Gas Corporation Limited with 71.63% shareholding as on June 30, 2021. Hindustan Petroleum Corporation Limited (a 'Maharatna' in petroleum refining sector,) held 16.96% shareholding as on June 30, 2021. MRPL is standalone refiner and is located in north of Mangaluru city, in Dakshina Kannada District of Karnataka State (India) with a 15.0MMTPA (Million Metric Ton per annum) refinery to process Crudes of various API and thus delivering a variety of quality products such as High-Speed Diesel (HSD), Motor spirit, Aviation Turbine Fuel (ATF) etc. 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) and derives around 20-30% of its income through exports. The company also has seven retail outlets in Karnataka.

| Brief Financials (Rs. crore) | FY20 (A) | FY21 (Abr.) |
|------------------------------|----------|-------------|
| Total operating income | 50,545 | 32058 |
| PBILDT | -3072 | 697 |
| PAT | -4039 | -765 |
| Overall gearing (times) | 2.82 | 5.89 |
| Interest coverage (times) | NM | 1.26 |

A: Audited; Abr.: Abridged; NM: Not Meaningful

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable.

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: 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 | Date of Issuance | Coupon Rate | Maturity Date | Size of the Issue (Rs. crore) | Rating assigned along with Rating Outlook |
|--|-------------------|-------------|--------------------|-------------------------------|---|
| Debentures-Non Convertible Debentures* | December 29, 2020 | 7.5 | Proposed 5 years | 5000.00 | CARE AAA; Stable |
| Commercial Paper-Commercial Paper (Carved out) | - | - | 7 days to 364 days | 3000.00 | CARE A1+ |

*Rs.1217 crore NCD (ISIN: INE103A08043) issued out of proposed limit of Rs.5000 Cr

Annexure-2: Rating History of last three years

| Sr. No. | Name of the Instrument/Bank Facilities | Current Ratings | | | Rating history | | | |
|---------|--|-----------------|--------------------------------|------------------|---|---|---|---|
| | | Type | Amount Outstanding (Rs. crore) | Rating | Date(s) & Rating(s) assigned in 2021-2022 | Date(s) & Rating(s) assigned in 2020-2021 | Date(s) & Rating(s) assigned in 2019-2020 | Date(s) & Rating(s) assigned in 2018-2019 |
| 1. | Commercial Paper-Commercial Paper (Carved out) | ST | 3000.00 | CARE A1+ | 1)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 (24-Dec-20) | - | - |

Annexure 3: Detailed explanation of covenants of the rated instrument / facilities: NA
Annexure 4: Complexity level of various instruments rated for this company

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

Annexure 5: List of subsidiaries, Joint ventures and associates

| Name | Type |
|---|---------------|
| ONGC Mangalore Petrochemicals Ltd. | Subsidiary |
| Shell MRPL Aviation Fuels & Services Ltd. | Joint venture |

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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