Mangalore Refinery and Petrochemicals Limited

May 15, 2020

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Commercial Paper (CP)	**3000**	**CARE A1+ (A One Plus)**	**Assigned**
Total Facilities	**3000 (Rs. Three thousand crore only**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the Commercial paper issue of Mangalore Refinery and Petrochemicals Limited (MRPL) factors in its strong parentage with 71.63% of its equity held by Oil and Natural Gas Corporation (ONGC, CARE AAA (Stable)/CARE A1+). The rating also takes cognizance of the strategic importance of MRPL in ONGC's portfolio of assets and the managerial and financial support extended by ONGC to MRPL in past. The rating is further supported by an experienced management team, healthy operational profile and its location advantage. The rating strengths are partly offset by moderate financial profile, exposure to crude oil prices, foreign currency fluctuation risk and project risk associated with the ongoing capex.

Rating Sensitivities

Negative Factors

- Any significant changes in shareholding of ONGC or deterioration in credit profile of ONGC
- Continued adverse pricing scenario leading to losses or higher than expected debt funded capital expenditure plans leading to moderation of the capital structure

Detailed description of the key rating drivers

Key Rating Strengths

Strong parentage and group support: MRPL has a strong parentage with 71.63% of its equity held by ONGC (CARE AAA (Stable)/CARE A1+) and 16.96% by Hindustan Petroleum Corporation Limited (a 'Maharatna' in petroleum refining sector). MRPL is of strategic importance to ONGC as MRPL and is a key component of ONGC's integrated oil and gas value chain.

There are strong management linkages between ONGC and MRPL. ONGC's Chairman and MD, Mr. Shashi Shanker is also the chairman of MRPL's board of directors. Mr. Subhash Kumar, Director (Finance) ONGC is also an Additional Director on the Board of MRPL. MRPL also gets support in terms of managerial expertise from the senior management of ONGC.

Apart from managerial and board's support, ONGC supports MRPL financially and in past MRPL has received loans from ONGC for undertaking its Capex plans at favourable interest rates. MRPL purchases around 10% of its crude oil requirement from ONGC at favourable receivable terms. Furthermore, ONGC has extended parental guarantee to MRPL's foreign crude oil supplier with respect to the payments of crude purchases.

Experienced management team: The Company is being managed by professional and experienced management team which is having a relevant experience in the industry. Mr. Shashi Shanker (Chairman of both MRPL and ONGC) is an industry veteran with over 30 years of experience in diverse E&P activities. He is a Petroleum Engineer from Indian School of Mines (ISM), Dhanbad. He also holds an MBA degree with specialisation in Finance. Mr. M. Venkatesh (Managing Director MRPL) 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.

Healthy operational profile as indicate by throughput and GRM: MRPL's has demonstrated a healthy throughput and capacity utilization during last couple of years. The company has processed 16.43MMT of crude oil in FY19 as against 16.31MMT in FY18, thus having more than 100% capacity utilisation. However, the capacity utilisation was ~92% in 9MFY20 (Q1: ~68%, Q2: 98% and Q3: 108%) as refinery complex faced water scarcity affecting plant operation for about 45 days and later it was also adversely impacted due to landslide.

MRPL's Gross Refining Margin (GRM) has remained volatile and it moderated from US$7.54/bbl in FY18 to US$4.05/bbl during FY19 primarily on account of inventory losses during Q3FY19. The refinery has a high Nelson Complexity Index of 10.6 which enables it to process heavy oil with high quality.

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications*

Location advantages of being a coastal refinery for sourcing of crude as well as exports: MRPL is located at the West Coast of the country and its petroleum movement is handled through the New Mangalore Port trust. The location of the refinery provides MRPL strategic advantages in terms of sourcing of crude oil, better suitability for export markets and also provides a better reach in the southern part of domestic market.

Key Rating Weaknesses

Moderate Financial Profile: The total operating income of MRPL has increased with a CAGR of 19.65% over FY17-19 to Rs. 63,3340 crore in FY19. The total income during FY19 increased by 29% primarily on account of higher throughput, better realization from export segment, higher sale of Polypropylene and more focus on direct domestic sales volumes. The company has achieved a total income of Rs. 36,426.55 crore during 9MFY20 as against Rs. 58,825 during 9MFY19. The lower income was primarily on account of lower throughput during 9MFY20 which reduced to 10.31 MMTPA from 12.14 MMTPA during 9MFY19.
The PBILDT margins moderated to 4.07% in FY19 from 12.29% in FY17. Accordingly, PAT margin declined to 0.55% in FY19 from 7.44% in FY17. The decline in PBILDT margin was primarily on account lower GRM during FY19. MRPL has incurred PBILDT losses of -1.83% in 9MFY20 as against PBILDT margin of 2.38% in 9MFY19. This has been on account of lower GRM of $1.41/bbl during 9MFY20 as against $3.72 during 9MFY19. Owing to sharp fall in crude prices during March 2020, the GRM is expected to be considerably lower for Q4FY20 on account of inventory losses.
Overall gearing ratio remained high at 1.67x as on Mar 31, 2019 (1.55x as on Mar 31, 2018) on account of both increased debt levels. Further, adjusted overall gearing (adjusted for investments in group companies) remained high at 1.71x as on Mar 31, 2019. Also, interest coverage ratio moderated to 2.43x in FY19 as against 5.62x in FY17 on account of both increasing finance cost and declining profits.

Exposure to changes in crude oil prices: MRPL's profitability margins are exposed to sharp movements in the crude oil prices. Prices of crude oil depend on various factors including policies by major producers of crude oil, demand variations, geopolitical situations and market sentiment. The prices of crude oil and refined products are based on international prices and governed by global as well as the regional demand-supply scenario. Thus, refinery players such as MRPL 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. The operating profits of a refinery are influenced by the crack spread (the difference between the crude price and petroleum product prices) and the inventory gain/loss. A sharp fall in crude oil prices leads to inventory losses for refiners leading to lower GRM thereby impacting their profitability. After a range-bound couple of years of crude price movement, the crude price (brent) has fallen sharply since early March 2020 and has fallen as low as USD 19/bbl. The fall was triggered on account of a supply glut in the market by Saudi Arabia and Russia which was later aggravated on account of a decline in demand for petroleum products due to COVID-19. On account of the sharp fall in crude prices and also on account of demand disruption, MRPL's GRM are expected to remain subdued during FY21.

Exposure to Foreign Exchange fluctuation risk: MRPL imports around 80% of the raw material requirement (Crude). Crude supply position of MRPL is secured well by entering into term contracts mainly with national oil companies from various regions. The payment for the import of oil crude is dollar-denominated. MRPL does not hedge its forex exposures and rely primary on its export income to act as natural hedge along with import parity pricing for the domestic sales. The refinery exported 30% of its products in FY19.

Project risk: During FY20, MRPL has incurred major Capex on the BS-VI up gradation project (total project cost is around Rs. 1800 crore) with around physically completion of 90% and started dispatching BS-VI complaint 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. The plant is scheduled to be completed by Q3FY21. Timely completion of the project without any cost overrun will remain critical as the desalination unit would cut down the risk of plant shut down due to water shortage (as witnessed during Q1FY20) to a large extent.

Liquidity analysis- Adequate
MRPL derives financial flexibility from its parentage of ONGC which provides it easy access to funds at attractive rates. MRPL has a working capital limit of Rs.900 crore with an average working capital utilisation during past 12 months (May 2019 to April 2020) at 12.4%. MRPL is expected to report cash losses during FY20 and thus would be mostly relying on refinancing of debt. The liquidity is further supported through Rs.2560 crore NCD raised (3-10 years) during FY20 for Capex and debt repayments. The company has availed moratorium for the loan installment which was repayable on Mar 31, 2020 of around Rs. 170 crore as per RBI guidelines on account of spread of COVID – 19.

A. **Analytical approach:** Consolidated factoring linkages with ONGC. The entities consolidated are provided below:

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

Applicable Criteria
[Criteria on assigning Outlook to Credit Ratings]
[CARE's Policy on Default Recognition]
[Criteria for Short Term Instruments]
[Rating Methodology - Consolidation and factoring linkages in rating]
[Rating Methodology - Manufacturing Companies]
[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 (ONGC; CARE AAA, Stable, CARE A1+) with 71.63% shareholding as on March 31, 2020. Hindustan Petroleum Corporation Limited (a 'Maharatna' in petroleum refining sector,) held 16.96% shareholding as on March 31, 2020. 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 MRPL has forward integrated into manufacturing of value added petrochemical product and has a Polypropylene Plant Apart from the refinery capacity MRPL has forward integrated into manufacturing of value added petrochemical product and has a Polypropylene Plant.
MRPL 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 30-35% of its income through exports. MRPL also has seven retail outlets in Karnataka.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	49,049	63,340
PBILDT	4,685	2,578
PAT	1,774	351
Overall gearing (times)	1.55	1.67
Interest coverage (times)	5.12	2.43

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable.

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

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
Commercial Paper	-	-	-	3000.00	CARE A1+

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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Commercial Paper	ST	3000.00	CARE A1+	-	-	-	-

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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