Mangalore Refinery and Petrochemicals Limited

December 24, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Proposed Non-Convertible Debentures	**5000**	**CARE AAA; Stable (Triple A; Outlook: Stable)**	**Assigned**
Total Facilities	**5000 (Rs. Five thousand crore only)**		

Details of instruments/facilities in Annexure-1

Other Ratings:

Facilities	Amount (Rs. crore)	Existing Rating
Commercial paper (CP)	**3000**	**CARE A1+ (A one plus)**
Total Facilities	**3000 (Rs. Three thousand crore only)**	

Detailed Rationale & Key Rating Drivers

The rating assigned to proposed Non-Convertible Debentures (NCD) 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. Furthermore, the rating factors in expected operational synergies subsequent to the completion of the acquisition of ONGC Mangalore Refinery Petrochemicals Limited (OMPL). The rating is also underpinned by MRPL's strong asset profile given the superior processing capabilities of its refinery, its experienced management team and its location advantage. The rating strengths are partly offset by its moderate financial profile, exposure to crude oil prices and global refining margins, foreign currency fluctuation risk and project risk associated with the ongoing capex.

Rating Sensitivities

Positive Factors: Not applicable

Negative Factors:

- Any significant changes in shareholding of ONGC or deterioration in the 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, being a key component of ONGC's integrated oil and gas value chain.

Besides strategic linkages, 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 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 has 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.

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

The senior management is supported by experienced and technically qualified professional in the operations of the company.

Healthy operational profile as indicated by throughput and gross refining margins (GRMs)

MRPL has demonstrated a healthy throughput and capacity utilization during last couple of years. The company has processed 14.14 million metric tonnes (MMT) of crude oil in FY20, thereby registering a capacity utilisation of 94% (Q1FY20: ~68%, Q2FY20: 98%, Q3FY20: 108% and Q4FY20: 102%) as plant operation was affected initially due to water scarcity faced by the refinery complex and later due to landslide. In FY19 and FY18 the company processed 16.43MMT and 16.31MMT of crude oil respectively, thus posting more than 100% capacity utilization.

In H1FY21, the company has throughput of only 4.38 million metric tonne per annum (MMTPA) due to lower demand of petroleum products affected on account of COVID 19 in comparison to throughput of 6.34 MMTPA in H1FY20 (affected due to water scarcity) which has impacted the capacity utilisation but the same has improved during Q2FY21 i.e. 67% in comparison to Q1FY21 i.e. 50% due to slight revival in demand after lifting of lockdown. MRPL's gross refining margin (GRM) has remained volatile and it moderated from US$4.05/bbl in FY19 and US$7.54/bbl in FY18 to US$(0.23)/bbl in FY20 primarily on account of inventory losses during Q4FY20. During H1FY21, the GRM stood at US$1.5/bbl. The refinery has a high Nelson Complexity Index of 10.6 which enables it to process heavy oil with high quality.

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 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, characterised by high gearing

In FY20, the total operating income of MRPL has declined by 20% to Rs. 50,545 crore from Rs. 63,340 crore in FY19 primarily on account of lower throughput during FY20. The company has achieved a total income of Rs. 10,588 crore during H1FY21 as against Rs. 22,308 during H1FY20. The lower income was primarily on account of lower throughput during H1FY21 which got reduced to 4.38 MMTPA from 6.24 MMTPA during H1FY20 due to lower demand of petroleum products affected on account of COVID-19. The company has posted loss at PBILDT level of Rs. 3072 crore in FY20 on account of lower GRM affected in Q1FY20 primarily due to scarcity of water and in Q4FY20 on account of inventory losses due to fall in crude oil prices.

The company's overall gearing ratio remained high at 2.82x as on Mar 31, 2020 (1.58x as on Mar 31, 2019) on account of increased debt levels which is expected to increase further as the company plans to raise NCD for funding the acquisition of equity shares of OMPL from ONGC (shareholding of 49% in OMPL). MRPL is in the process to raise Rs.5,000 crore through NCD which would be raised in tranches. During FY21, the company plans to raise around Rs.2,000 crore to fund the OMPL acquisition (Rs.1,217 crore) and balance towards capex purposes. The company plans to raise the remaining Rs.3,000 crore in FY22 to refinance short-term working capital borrowing.

Stake acquisition of OMPL: On October 19, 2020, MRPL announced that its Board had approved the acquisition of 124.7 crore equity shares of OMPL from ONGC (shareholding of 49% in OMPL) at a price of Rs. 9.76/share for a cash consideration of Rs. 1,217 crore. After completion of acquisition, shareholding of MRPL will increase from 51% to 100%. The proposed merger is expected to create operational synergies and also provide tax advantages with respect to absorption of losses at OMPL. OMPL, a subsidiary of MRPL, was set up for value addition of excess naphtha and aromatic streams available from MRPL refinery thus the acquisition of OMPL with MRPL will provide operational synergies in the long run.

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 refining margins and governed by global as well as the regional demand-supply scenario. Consequently, 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. Oil output cuts across the world has pushed the crude price to USD

50/bbl in December 2020 which has now been range bound between USD 40 – 50/bbl. On account of the range bound 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 (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. 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 33% of its products in FY20.

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 despatching 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 Q4FY21. 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 (December 2019 to November 2020) at 8.4%. MRPL is expected to report cash losses during FY21 and consequently would be relying on refinancing of debt. The liquidity is further supported through Rs.2,560 crore NCD raised (3-10 years) during FY20 for capex and debt repayments. The company has opted for moratorium as per RBI COVID 19 guidelines but the same has now been repaid.

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]
[Rating Methodology - Consolidation]
[Rating Methodology - Factoring linkages in rating]
[Rating Methodology - Manufacturing Companies]
[Criteria for Short Term Instruments]
[Financial ratios – Non-Financial Sector]
[Liquidity Analysis-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)	FY19 (A)	FY20 (A)
Total operating income	63,340	50,545
PBILDT	2,578	(3072)
PAT	351	(4039)
Overall gearing (times)	1.58	2.82
Interest coverage (times)	2.43	NM

A: Audited; 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

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	Proposed	Proposed	Proposed	5000.00	CARE AAA; Stable

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-Commercial Paper (Carved out)	ST	3000.00	CARE A1+	1)CARE A1+ (15-May-20)	-	-	-
2.	Debentures-Non Convertible Debentures	LT	5000.00	CARE AAA; Stable	-	-	-	-

Annexure 3: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Debentures-Non Convertible Debentures	Simple

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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