Ratings

CRISIL
An S&P Global Company

Rating Rationale

January 12, 2021 | Mumbai

Mangalore Refinery and Petrochemicals Limited

Rating reaffirmed at 'CRISIL AAA / Stable , CCR AAA / Stable'

Rating Action

Rs.3000 Crore Non Convertible Debentures	**CRISIL AAA/Stable (Reaffirmed)**
Corporate Credit Rating	**CCR AAA/Stable (Reaffirmed)**

1 crore = 10 million
Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale
CRISIL has reaffirmed its ‘CRISIL AAA/Stable’ rating on the Non-Convertible Debentures of Mangalore Refinery and Petrochemicals Ltd (MRPL). The corporate credit rating (CCR) is also reaffirmed at 'CCR AAA/Stable'.

On January 02, 2021, MRPL completed the acquisition of 49% stake in OMPL from ONGC for a cash consideration of Rs 1,217 crore thereby increasing its own stake to 99.99% from 51% earlier thus making OMPL a wholly-owned subsidiary of MRPL. Further, MRPL is in the process of amalgamating OMPL with itself and the same is expected to be completed over next six months. The acquisition of shares and the expected amalgamation does not have any impact on the credit profile of MRPL since OMPL (being a 51% subsidiary earlier) was always consolidated with the former while assessing the credit risk considering the operational synergies, common management control and commonality in operations of these entities.

The rating continues to reflect the favourable business risk profile of the company and the strong operational, financial and managerial support that the company receives from its parent, Oil and Natural Gas Corporation Ltd (ONGC). These strengths are partially offset by the company's moderate financial risk profile and exposure to risks related to volatility in crude oil prices.

Analytical Approach
The rating centrally factors in the strategic importance of the company to, and strong support from, its parent ONGC. CRISIL has taken a consolidated view of MRPL and ONGC Mangalore Petrochemicals Ltd (OMPL; rated ‘CRISIL AAAr(CE)/Provisional CRISIL AAAr(CE)/Stable/CRISIL A1+’). MRPL holds a 99.99% stake in OMPL post acquisition of 49% stake from ONGC on January 02, 2021.

Please refer Annexure - List of entities consolidated , which captures the list of entities considered and their analytical treatment of consolidation.

Key Rating Drivers & Detailed Description
Strengths:

- **Strong support from parent:**
  MRPL benefits significantly from the operational, financial, and managerial support of parent, ONGC, which owns an effective 80% stake in the company. The company is critical to ONGC's goal of becoming an integrated oil and gas entity with presence across exploration & production, refining, and marketing. Business integration of OMPL with MRPL

increases the strategic importance of the latter to ONGC, which aims to be the leader in the oil, gas and petrochemicals value chain.

- **Favourable business profile:**
  MRPL has a high Nelson complexity index (NCI) of 9.78 (refineries with high NCI have the necessary flexibility to process a variety of crude oils and can record high value addition). High operating efficiency enables processing of sour crude and optimises distillation yield.

  GRMs reported for fiscal 2020 however weakened to -$0.23/bbl (as compared to $4.06/bbl reported for fiscal 2019). The refinery also operated at a lower throughput of 93% (as compared to 108% in fiscal 2019). The weakness was mainly on account of a temporary disruption in operations caused by scarcity in water supply (impacting operations in Q1FY20) and occurrence of a landslide caused by heavy rainfall (impacting operations in Q2FY20). This was further aggravated by the heavy inventory losses incurred during the fourth quarter, caused by a steep crash in crude oil prices.

  GRMs continued to remain weak at $1.55/bbl during the first half of fiscal 2021, caused by subdued demand environment amidst the ongoing COVID-19 pandemic. While the core GRMs were weak, the same was partially compensated by the inventory gains earned on recovery of crude oil prices. The refinery operated at an average utilisation of 58% during the first half of fiscal 2021. Since then, the operations have gradually resumed with the refinery currently operating at an average utilisation of around 80-90%.

Weakness:

- **Moderate financial risk profile:**
  Capital structure remains moderate with gearing of 2.53 times as on March 31, 2020. Debt coverage indicators have weakened in fiscal 2020 with the repayment obligations mainly being met through additional borrowings. The weakening of the financial risk profile has mainly been on account of a decline in the operating performance of the company. Further, MRPL has budgeted to undertake a debt-funded capex of around Rs 1200 crore in fiscal 2021, to complete the BS-VI quality upgradation project as well as to set up a desalination plant (to mitigate the issue of a shortage in water supply).

- **Susceptibility to volatility in crude oil prices:**
  Crude oil prices have been volatile over the past few years. Prices fell sharply to around USD 20 per barrel (bbl) towards end of March 2020, from over USD 69 in the beginning of January 2020. Such volatility in prices resulted in heavy inventory losses, thus hampering the operating performance. The company imports around 80% of its crude oil requirement and accordingly such large import dependence also exposes its performance to volatility in foreign exchange rates.

Liquidity: Superior

The parental support received from ONGC benefits the financial flexibility of MRPL, enabling it to access funding sources at attractive rates. On an average, MRPL generates healthy cash accruals of Rs 1000 crores, although performance has weakened in the past fiscal. MRPL also has access to fund based limits of Rs. 900 crores, with minimal utilisation. The company had availed 1.0 of the RBI announced moratorium facility as the operations were impacted by the intermittent lockdown announced across the country. The company has repayment obligations of around Rs 1,800 crores in fiscal 2021, amongst which Rs. 600 crore has been repaid. The remaining obligation would be funded through a mix of internal accruals and refinancing.

Outlook Stable

CRISIL believes MRPL will remain strategically important to, and will continue to receive operational, managerial, and financial support from parent, ONGC.

Rating Sensitivity Factors

Downward Factors

- Deterioration in credit profile of ONGC
- Sustained deterioration in the GRMs reported to below $4/bbl

About the Company

MRPL, a standalone refinery, is a 71.6% subsidiary of ONGC. The refinery is located near Mangalore port, on the west coast of India. In fiscal 2012, MRPL's nameplate capacity increased to 15 million tonne per annum with commissioning of the crude and vacuum distillation units of its Phase-III expansion project. OMPL's plant, commissioned in fiscal 2015, has capacity to produce around 920 kilo tonne per annum (ktpa) of paraxylene and around 280 ktpa of benzene, along with other by-products. The plant has one of the largest paraxylene manufacturing capacities in India. It will utilise feedstock (naphtha and aromatic streams) from MRPL's refinery adjacent to the plant. OMPL's entire capacity has been commissioned and utilisation is ramping up.

For the six months ended September 30, 2020, MRPL incurred a loss of Rs 746.14 crore on revenue of Rs 10,588 crore, against a loss reported of Rs 1,559 crore on revenue of Rs 22,308 crore for the corresponding period of the previous fiscal.

Key Financial Indicators (Consolidated Financials)

Particulars	Unit	2020	2019
Revenue	Rs crore	50,501	63,215
Profit After Tax (PAT)	Rs crore	-4,039	351
PAT Margin	%	-8.00	0.56
Adjusted debt/adjusted networth	Times	2.53	1.58
Interest coverage	Times	-2.47	2.55

Any other information: Not applicable

Note on complexity levels of the rated instrument:
CRISIL complexity levels are assigned to various types of financial instruments. The CRISIL complexity levels are available on www.crisil.com/complexity-levels. Users are advised to refer to the CRISIL complexity levels for instruments that they consider for investment. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs.Cr)	Complexity levels	Rating assigned with outlook
INE103A08027	Non-Convertible Debentures	13-Jan-20	6.64%	14-Apr-23	500.0	Simple	CRISIL AAA/Stable
INE103A08019	Non-Convertible Debentures	13-Jan-20	7.40%	12-Apr-30	1000.0	Simple	CRISIL AAA/Stable
INE103A08035	Non-Convertible Debentures	29-Jan-20	7.75%	29-Jan-30	1060.0	Simple	CRISIL AAA/Stable
NA	Non-Convertible Debentures*	NA	NA	NA	440.0	NA	CRISIL AAA/Stable

**Not yet placed*

Annexure – List of entities consolidated

Names of Entities Consolidated	Extent of Consolidation	Rationale for Consolidation
ONGC Mangalore Petrochemicals Limited	Full	Wholly-owned subsidiary and common business

Annexure - Rating History for last 3 Years

	Current			2021 (History)		2020		2019		2018		Start of 2018
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Corporate Credit Rating	LT	0.0	CCR AAA/Stable		--	30-11-20	CCR AAA/Stable	29-11-19	CCR AAA/Stable	29-03-18	CCR AAA/Stable	CCR AAA/Stable
Non Convertible Debentures	LT	3000.0	CRISIL AAA/Stable		--	30-11-20	CRISIL AAA/Stable	29-11-19	CRISIL AAA/Stable		--	--
			--		--		--	28-03-19	CCR AAA/Stable		--	--

All amounts are in Rs.Cr.

Annexure - Details of various bank facilities

Current facilities			Previous facilities		
Facility	Amount (Rs.Crore)	Rating	Facility	Amount (Rs.Crore)	Rating

Links to related criteria
CRISILs Approach to Financial Ratios
Rating criteria for manufaturing and service sector companies
Rating Criteria for Petrochemical Industry
Criteria for Notching up Stand Alone Ratings of Companies based on Parent Support
CRISILs Criteria for Consolidation

Media Relations	Analytical Contacts	Customer Service Helpdesk
Saman Khan Media Relations **CRISIL Limited** D: +91 22 3342 3895 B: +91 22 3342 3000 saman.khan@crisil.com **Naireen Ahmed** Media Relations **CRISIL Limited**	Nitesh Jain Director **CRISIL Ratings Limited** D:+91 22 3342 3329 nitesh.jain@crisil.com Ankit Kedia Associate Director **CRISIL Ratings Limited** D:+91 22 4040 8468	Timings: 10.00 am to 7.00 pm Toll free Number:1800 267 1301 For a copy of Rationales / Rating Reports: CRISILratingdesk@crisil.com For Analytical queries: ratingsinvestordesk@crisil.com

D: +91 22 3342 1818 B: +91 22 3342 3000 naireen.ahmed@crisil.com	Ankit.Kedia@crisil.com Joanne Annie Gonsalves Senior Rating Analyst **CRISIL Ratings Limited** D:+91 22 4254 4071 Joanne.Gonsalves@crisil.com	

About CRISIL Ratings Limited

CRISIL Ratings pioneered the concept of credit rating in India in 1987. With a tradition of independence, analytical rigour and innovation, we set the standards in the credit rating business. We rate the entire range of debt instruments, such as, bank loans, certificates of deposit, commercial paper, non-convertible / convertible / partially convertible bonds and debentures, perpetual bonds, bank hybrid capital instruments, asset-backed and mortgage-backed securities, partial guarantees and other structured debt instruments. We have rated over 33,000 large and mid-scale corporates and financial institutions. We have also instituted several innovations in India in the rating business, including rating municipal bonds, partially guaranteed instruments and infrastructure investment trusts (InvITs).

CRISIL Ratings Limited ("CRISIL Ratings") is a wholly-owned subsidiary of CRISIL Limited ("CRISIL"). CRISIL Ratings Limited is registered in India as a credit rating agency with the Securities and Exchange Board of India ("SEBI").

For more information, visit www.crisil.com/ratings

About CRISIL Limited

CRISIL is a global analytical company providing ratings, research, and risk and policy advisory services. We are India's leading ratings agency. We are also the foremost provider of high-end research to the world's largest banks and leading corporations.

CRISIL is majority owned by S&P Global Inc., a leading provider of transparent and independent ratings, benchmarks, analytics and data to the capital and commodity markets worldwide

For more information, visit www.crisil.com

Connect with us: TWITTER | LINKEDIN | YOUTUBE | FACEBOOK

CRISIL uses the prefix ‘PP-MLD’ for the ratings of principal-protected market-linked debentures (PPMLD) with effect from November 1, 2011 to comply with the SEBI circular, "Guidelines for Issue and Listing of Structured Products/Market Linked Debentures". The revision in rating symbols for PPMLDs should not be construed as a change in the rating of the subject instrument. For details on CRISIL's use of 'PP-MLD' please refer to the notes to Rating scale for Debt Instruments and Structured Finance Instruments at the following link: www.crisil.com/ratings/credit-rating-scale.html