No. CARE/DRO/RL/2021-22/1872

**Ms. Pomila Jaspal**
**Finance Director**
**Mangalore Refinery And Petrochemicals Limited**
MRPL, via Katipalla,
Kuthethdoor, Dakshina, Kannada,
Mangalore
Karnataka 575030

July 28, 2021

**Confidential**

Dear Madam,

**Credit rating for Commercial Paper (CP) issue aggregating Rs.3,000.00 crore[1]**

On the basis of recent developments including operational and financial performance of your company for FY21 (abridged) and the possible impact of the same on the credit profile of your company, our Rating Committee has reviewed the following rating(s):

| Instrument | Amount (Rs. crore) | Rating[2] | Rating Action |
|---|---|---|---|
| Commercial Paper (Carved out)* | 3,000.00 | CARE A1+ (A One Plus) | Reaffirmed |
| Total Instruments | 3,000.00 (Rs. Three Thousand Crore Only) | | |

**carved out of the sanctioned working capital limits of the company.*

2. The CP issue would be for a maturity not exceeding one year.
3. Please arrange to get the rating revalidated in case the issue is not made within **two months** from the date of this letter i.e. by September 27, 2021. Once the CP is placed, the rating is valid for the tenure of such instrument till redemption.

[1] *This represents the aggregate of all CP issuances of the company outstanding at any point in time.*
[2] *Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

4. Please inform us the below-mentioned details of issue immediately, but not later than 7 days from the date of placing the instrument:

| Instrument type | ISIN | Issue Size (Rs cr.) | Coupon Rate | Coupon Payment Dates | Terms of Redemption | Redemption date | Name and contact details of Trustee/IPA | Details of top 10 investors |
|---|---|---|---|---|---|---|---|---|

5. The rationale for the rating will be communicated to you separately. A write-up (press release) on the above rating is proposed to be issued to the press shortly, a draft of which is enclosed for your perusal as **Annexure**. We request you to peruse the annexed document and offer your comments if any. We are doing this as a matter of courtesy to our clients and with a view to ensure that no factual inaccuracies have inadvertently crept in. Kindly revert as early as possible. In any case, if we do not hear from you by July 29, 2021, we will proceed on the basis that you have no any comments to offer.
6. CARE reserves the right to undertake a surveillance/review of the rating from time to time, based on circumstances warranting such review, subject to at least one such review/surveillance every year.
7. CARE reserves the right to revise/reaffirm/withdraw the rating assigned as a result of periodic review/surveillance, based on any event or information which in the opinion of CARE warrants such an action. In the event of failure on the part of the entity to furnish such information, material or clarifications as may be required by CARE so as to enable it to carry out continuous monitoring of the rating of the debt instruments, CARE shall carry out the review on the basis of best available information throughout the life time of such instruments. In such cases the credit rating symbol shall be accompanied by "ISSUER NOT COOPERATING". CARE shall also be entitled to publicize/disseminate all the afore-mentioned rating actions in any manner considered appropriate by it, without reference to you.
8. Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

9. Users of this rating may kindly refer our website www.careratings.com for latest update on the outstanding rating.
10. CARE ratings are **not** recommendations to buy, sell, or hold any securities.

If you need any clarification, you are welcome to approach us in this regard.

Thanking you,

Yours faithfully,


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**Jasmeen Kaur**
Director
jasmeen.kaur@careratings.com


Encl.: As above

**Disclaimer**

CARE's ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE's ratings do not convey suitability or price for the investor. CARE's ratings do not constitute an audit on the rated entity. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE or its subsidiaries/associates may also have other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is, inter-alia, based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CARE is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE's rating.
Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

## Annexure
**Mangalore Refinery and Petrochemicals Limited**

**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*

**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.



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***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 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. 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 28, 2020 | 7.5 | Proposed 5 years | 5000.00 | CARE AAA; Stable |
| Commercial Paper-Commercial Paper (Carved out) | - | - | - | 3000.00 | CARE A1+ |

**Rs.1217 crore issued out of proposed limit*

**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.*

**Contact us**

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**About CARE Ratings:**

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.



****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

**No. CARE/DRO/RL/2021-22/2716**

**Ms. Pomila Jaspal**
**Finance Director**
**Mangalore Refinery And Petrochemicals Limited**
MRPL, via Katipalla,
Kuthethdoor, Dakshina, Kannada,
Mangalore
Karnataka 575030

December 17, 2021

**Confidential**

Dear Madam,

**Credit rating for Non-Convertible Debentures**

Please refer to our letter no. CARE/DRO/RL/2021-22/1880 dated July 28, 2021 and your request for revalidation of the rating assigned to the Non Convertible Debentures of the company, for a limit of Rs.5,000.00 crore.

2. The following rating(s) have been reviewed:

| Sr. No. | Instrument | Amount (Rs. crore) | Rating[1] | Rating Action |
|---|---|---|---|---|
| 1. | Non Convertible Debentures^ | 5,000.00 | CARE AAA; Stable (Triple A; Outlook: Stable) | Reaffirmed |
| | Total Instruments | 5,000.00 (Rs. Five Thousand Crore Only) | | |

^including outstanding NCDs of Rs.1217 crore

3. The outstanding NCD of Rs. 1217 Crore is repayable by December 29, 2025.
4. Please arrange to get the rating revalidated, in case the proposed issue is not made within **six months** from the date of this letter.
5. Please inform us the below-mentioned details of issue immediately, but not later than 7 days from the date of placing the instrument:

| Instrument type | ISIN | Issue Size (Rs cr.) | Coupon Rate | Coupon Payment Dates | Terms of Redemption | Redemption date | Name and contact details of Trustee/IPA | Details of top 10 investors |
|---|---|---|---|---|---|---|---|---|

6. CARE Ratings Ltd. reserves the right to undertake a surveillance/review of the rating from time to time, based on circumstances warranting such review, subject to at least one such review/surveillance every year.

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

instruments, CARE Ratings Ltd. shall carry out the review on the basis of best available information throughout the life time of such instruments. In such cases the credit rating symbol shall be accompanied by "ISSUER NOT COOPERATING". CARE Ratings Ltd. shall also be entitled to publicize/disseminate all the afore-mentioned rating actions in any manner considered appropriate by it, without reference to you.

8. Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.
9. Users of this rating may kindly refer our website www.careedge.in for latest update on the outstanding rating.
10. CARE Ratings Ltd. ratings are **not** recommendations to buy, sell, or hold any securities.

If you need any clarification, you are welcome to approach us in this regard.

Thanking you,

Yours faithfully,

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Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.