July 24, 2020

# Mangalore Refinery and Petrochemicals Limited: Ratings reaffirmed; outlook revised to Stable

## Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|---|---|---|---|
| NCDs | 3,000.0 | 3,000.0 | Reaffirmed at [ICRA]AAA; Outlook revised to Stable from Negative |
| Fund Based Limits | 6,000.0 | 6,000.0 | Reaffirmed at [ICRA]AAA; Outlook revised to Stable from Negative |
| Term Loan | 1,371.4 | 1,371.4 | Reaffirmed at [ICRA]AAA; Outlook revised to Stable from Negative |
| Non-Fund Based Limits | 6,600.0 | 6,600.0 | [ICRA]A1+; reaffirmed |
| Commercial Paper | 3,000.0 | 3,000.0 | [ICRA]A1+; reaffirmed |
| Issuer Rating | - | - | Reaffirmed at [ICRA]AAA; Outlook revised to Stable from Negative |
| **Total** | **19,971.4** | **19,971.4** | |

**Instrument details are provided in Annexure-1*

## Rationale

The revision in ICRA's outlook on ONGC group to Stable from Negative is on account of recovery in crude oil prices from the lows of about $20/bbl during April end to about $40/bbl currently along with recovery in crude oil demand with the easing of lockdowns globally. Though the global demand destruction of crude oil owing to the Covid-19 pandemic is unprecedented however the active management of crude supply by OPEC+ in coordination with G-20 nations has led to a partial recovery in crude oil prices. While the cut announced by OPEC+ at 9.7 mb/d was by far the largest ever, the compliance level has been high besides which, after about 30% decline in crude demand in April, the consumption has been rising month on month aiding the recovery in crude oil prices.

The ratings of Mangalore Refinery and Petrochemicals Limited (MRPL) favorably factor in the majority ownership of Oil and Natural Gas Corporation (ONGC; [ICRA]AAA(Stable)/[ICRA]A1+) and ONGC's continued support to MRPL, which is expected to be sustained given its strategic importance to ONGC's forward integration plans. The capacity utilisation levels at MRPL's refinery were impacted in H1 FY2020 due to loss of planned and unplanned shutdown in different phases of the refinery due to shortage of fresh water in Q1 FY2020 and excessive rainfall in Q2 FY2020. Notwithstanding these disruptions, the operational performance of MRPL's refinery has remained healthy in the past with utilisation levels consistently above 100% and the healthy ramp up of operations at its polypropylene unit that achieved close to full capacity utilisation in FY2019. The ratings also take into account the strong financial flexibility of MRPL due to its strong parentage besides which the company has sizeable unutilised working capital limits. The ratings also factor in the location advantage enjoyed by the company being located close to the Mangalore port as well as its diversified crude sourcing.

The sharp drop in oil prices in the month of March 2020, lead to large inventory losses for the quarter ending March 2020 and full year 2020. The company has posted a large net loss of Rs 4,041 crore in FY2020 as against a net profit of Rs 351 crore in FY2019, owing to the loss of production due to shutdowns due to water shortage and landslide in H1 FY2020, weak core GRMs and large inventory losses in Q4 FY2020. In the current fiscal though the capacity utilisation remains sub-optimal till date as demand remains muted owing to the Covid-19 pandemic, however the GRMs would be aided by some recovery in crude prices and lower fuel and loss component at lower crude oil prices. The company's profitability would remain vulnerable to the import duty differential, commodity price cycles and the INR-USD exchange rates. Further, MRPL has sizeable capex outlined in the medium to long-term to enhance refinery capacity to 25 MMTPA and set up a desalination project to safeguard its operations against water shortage. The large-scale projects would entail execution risks, while the timelines and funding mix would remain a rating sensitivity. The company is also exposed to asset concentration risks as its refining presence is limited to Mangalore (Karnataka).

While assigning the ratings, ICRA has noted MRPL's plans to merge its subsidiary, ONGC Mangalore Petrochemicals Limited (OMPL; [ICRA]A1+) with itself. The process is currently underway but has been delayed by regulatory approvals. OMPL currently operates an aromatic complex adjacent to the refinery complex of MRPL. OMPL reported its first year of profitable operations in FY2019, since its commissioning in FY2015 owing to healthy paraxylene-naphtha spreads, however, the company's performance in FY2020 has been adversely impacted by weak spreads for its key products, Paraxylene and Benzene. In ICRA's view the synergy benefits of the impending merger are expected to remain strong in the long run.

## Credit strengths

**Strong sponsor profile resulting in high financial flexibility -** MRPL has a strong parentage with about 72% of its equity held by ONGC and about 17% by Hindustan Petroleum Corporation Limited ([ICRA]AAA (Stable)/ [ICRA]A1+). MRPL is strategically important to ONGC and is essentially managed by ONGC through its nominee directors and senior management. The chairman of ONGC acts as the chairman of MRPL's board of directors. ONGC had also extended loans to MRPL at favourable terms for part-funding of the large-size capital expenditure undertaken for refinery expansion. The company enjoys high financial flexibility on account of the parentage of ONGC.

**Healthy operational profile-**MRPL's refinery has been operating at more than 100% capacity utilisation for the last few years. The refinery has witnessed a healthy ramp up in operations since the commissioning of the Phase-III expansion and its polypropylene unit. However, in FY2020 the capacity utilization was lower than past years as there was loss of production owing to plant shutdowns due to water shortage and landslides. In YTD FY2021 capacity utilisation remains sub-optimal owing to the muted demand due to Covid-19 pandemic.

**Location advantages of being a coastal refinery for sourcing of crude as well as exports -** The company's refinery is located on the western coast of the country close to the Mangalore port. The company's location is logistically advantageous for sourcing of crude as well as export of products.

## Credit weaknesses

**Vulnerability of profits to the import duty differential on the domestic sales, commodity price cycles and forex fluctuations –** Given the nature of the business, the company remains exposed to the movement in the commodity cycles and the volatility in the crude prices. The company's GRM levels witnessed a considerable decline in FY2020 owing to weak crack spreads for light and middle distillates and high inventory losses. Any adverse changes in the import duty on its products would also have an impact on the company's domestic sales. The company's profitability is also exposed to the forex rates (INR-US$) given the company imports its crude requirement, though it also exports certain proportion of its sales (25%~30%) which provides a natural hedge to some extent.

**Execution risks associated with the on-going and future capex –**MRPL plans to expand its refining capacity to 25 MMTPA from the existing 15 MMTPA gradually after the capex for BS-VI compliance is completed. In addition, MRPL is setting up a desalination plant. The sizeable projects of MRPL expose it to project execution risks.

**Weak financial performance of its subsidiary, OMPL –** OMPL reported healthy revenue growth of 52% YoY in FY2019 largely driven by the increase in product realisations, though the growth in sales volumes remained muted owing to sub-par plant utilisation levels. In FY2020, OMPL recorded a significant decline of 42% YoY in operating income driven by both, decline in plant throughput and average realisation. OMPL has been operating with weak profitability levels since commissioning due to – a) inadequate supply of feedstock from MRPL which has resulted in lower-than-estimated plant utilisation levels, and b) relatively subdued crack spreads of its products. The Px-naphtha spreads witnessed sharp improvement in FY2019 following a tight supply situation due to shutdown of certain Px capacities as well as healthy product demand. As a result, the company's operating profits grew 217% YoY in FY2019. However, the spreads underwent a significant correction in FY2020 with sizeable new capacities coming on stream in China along with lower utilization levels leading to operating losses of Rs. 531 crore in FY2020 as against operating profit of Rs. 988 crore in FY2019. The company also incurred forex losses of ~Rs. 174 crore in FY2020 which along with high depreciation led to a net loss of Rs. 1400.4 crore in FY2020.

## Liquidity Position: Adequate

The liquidity of MRPL is expected to remain adequate given the its high financial flexibility and adequate buffer in the form of unutilised working capital limits. Even though the company has incurred large cash losses in FY2020 and has large repayment obligations going forward nevertheless these are expected to be met partly from acrruals and partly refinanced. The ability to the company to raise funds from banks and capital markets at fine rates provides comfort from a liquidity perspective.

## Rating sensitivities

**Negative triggers** – Negative pressure on MRPL's ratings could arise in case the credit profile of the ONGC Group weakens or the linkage between ONGC and MRPL weakens, or if there is a further deterioration in MRPL's performance leading to high losses.

## Analytical approach:

| Analytical Approach | Comments |
|---|---|
| Applicable Rating Methodologies | Rating Methodology for Downstream Oil Companies |
| Parent/Group Support | Parent - Oil and Natural Gas Corporation Limited<br>We expect MRPL's parent, ONGC [rated [ICRA]AAA(Stable)/[ICRA]A1+], to be willing to extend financial support to MRPL, should there be a need, given the high strategic importance that MRPL holds for ONGC for meeting its diversification objectives |
| Consolidation / Standalone | For arriving at the ratings, ICRA has considered the consolidated financials of Mangalore Refinery and Petrochemicals Limited. As on March 31, 2019, the Company had 1 subsidiary and 1 JV, that are enlisted in Annexure-2. |

## About the company:

Mangalore Refinery & Petrochemicals Limited (MRPL) was set up as a joint venture (JV) between the AV Birla Group and Hindustan Petroleum Corporation Limited (HPCL). MRPL operates a refinery at Mangalore (Karnataka), with a nameplate capacity of 15 million metric tonne per annum (MMTPA). The refinery project was initially implemented in two phases during a period of administered pricing, where the regulatory framework provided assured returns on capital employed. However, since the deregulation of the refining sector in 1998, the company had been exposed to low and volatile international refining margins, which affected its operating profitability quite significantly. Together with high debt service commitments, this resulted in MRPL posting large losses in the past. Oil and Natural Gas Corporation Limited (ONGC) acquired a 51% stake in MRPL in March 2003, and later increased its stake to 72%. With a change in management, funds infusion by ONGC and upturn in the refining margin cycle, the company made a financial turnaround in the subsequent period. The refining capacity was enhanced to 15 MMTPA from 11.82 MMTPA in March 2012 with the commissioning of Phase-III. It also commissioned a 440 KTPA polypropylene unit. In July 2015, MRPL's board approved the merger of its subsidiary, OMPL, with itself, which is currently in process. MRPL had acquired a controlling stake in OMPL in February 2015 by increasing its stake to 51% from 3%, while the remaining stake was held by ONGC.

## Key Financial Indicators - Consolidated (Audited)

| | FY2019 | FY2020 |
|---|---|---|
| Operating Income (Rs. crore) | 63,241 | 50,230 |
| PAT (Rs. crore) | 351 | -4,041 |
| OPBDIT/ OI (%) | 9.3% | -6.3% |
| RoCE (%) | 15.7% | -17.9% |
| | | |
| Total Debt/ TNW (times) | 1.5 | 2.5 |
| Total Debt/ OPBDIT (times) | 5.6 | -5.6 |
| Interest coverage (times) | 2.6 | -2.5 |
| NWC/ OI (%) | 6% | 1% |

## Status of non-cooperation with previous CRA: Not applicable

## Any other information: None

## Rating History for last three years:

| Amount | Type | Amount Rated (Rs. crore) | Amount Outstanding (Rs. crore) | Current Rating Date & Rating in FY2021 | | | Chronology of Rating History for past 3 years Date & Rating in FY2020 | | | Date & Rating in FY2019 | | Date & Rating in FY2018 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | 24-July-2020 | 18-May -20 | 05-May-20 | 27-Nov-19 | 24-Jul-19 | 09-May-19 | 16-Aug-18 | 04-Apr-18 | 02-Nov-17 | 19-Apr-17 |
| NCDs | Long Term | 3,000 | 2,560 | [ICRA] AAA (Stable) | [ICRA] AAA (Negative) | [ICRA] AAA (Negative) | [ICRA] AAA (Stable) | - | - | - | - | - | - |
| Fund Based Limits | Long Term | 6,000 | | [ICRA] AAA (Stable) | [ICRA] AAA (Negative) | [ICRA] AAA (Negative) | [ICRA] AAA (Stable) | [ICRA] AAA (Stable) | [ICRA] AAA (Stable) | [ICRA] AAA (Stable) | [ICRA] AAA (Stable) | [ICRA] AAA (Stable) | [ICRA] AAA (Stable) |
| Term Loan | Long Term | 1371.4 | 1371.4 | [ICRA] AAA (Stable) | [ICRA] AAA (Negative) | [ICRA] AAA (Negative) | [ICRA] AAA (Stable) | [ICRA] AAA (Stable) | [ICRA] AAA (Stable) | [ICRA] AAA (Stable) | | | |
| Non Fund Based Limits | Short Term | 6,600 | | [ICRA] A1+ | [ICRA] A1+ | [ICRA] A1+ | [ICRA] A1+ | [ICRA] A1+ | [ICRA] A1+ | [ICRA] A1+ | [ICRA] A1+ | [ICRA] A1+ | [ICRA] A1+ |
| Commercial Paper | Short Term | 3,000 | 2,325 | [ICRA] A1+ | [ICRA] A1+ | [ICRA] A1+ | [ICRA] A1+ | [ICRA] A1+ | [ICRA] A1+ | [ICRA] A1+ | [ICRA] A1+ | [ICRA] A1+ | [ICRA] A1+ |
| Issuer Rating | Long Term | - | | [ICRA] AAA (Stable) | [ICRA] AAA (Negative) | [ICRA] AAA (Negative) | [ICRA] AAA (Stable) | [ICRA] AAA (Stable) | [ICRA] AAA (Stable) | [ICRA] AAA (Stable) | [ICRA] AAA (Stable) | [ICRA] AAA (Stable) | [ICRA] AAA (Stable) |

## Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [www.icra.in](http://www.icra.in)

## Annexure-1: Instrument Details

| ISIN No | Instrument Name | Date of Issuance / Sanction | Coupon Rate | Maturity Date | Amount Rated (Rs. crore) | Current Rating and Outlook |
|---|---|---|---|---|---|---|
| **INE103A08027**<br>**INE103A08019**<br>**INE103A08035** | Non-Convertible Debentures | 13-Jan-2020 (Rs. 500 crore)<br>13-Jan-2020 (Rs. 1000 crore)<br>29-Jan-2020 (Rs. 1,060 crore) | 6.64% p.a. (Rs.500 Cr)<br>7.40% p.a. (Rs.1,000 Cr)<br>7.75% p.a. (Rs.1,060 Cr) | 14-Apr-2023 (Rs. 500 crore)<br>12-Apr-2023 (Rs. 1000 crore)<br>29-Jan-2030(Rs. 1,060 crore) | 3,000.0* | [ICRA]AAA (Stable) |
| -- | Fund Based Limits | -- | -- | -- | 6,000.0 | [ICRA]AAA (Stable) |
| -- | Term Loans | FY2019 | -- | FY2021 | 1,371.4 | [ICRA]AAA (Stable) |
| -- | Non-fund Based Limits | -- | -- | -- | 6,600.0 | [ICRA]A1+ |
| **INE103A14124**<br>**INE103A14124**<br>**INE103A14124** | Commercial Paper | 20-May-2020 (Rs. 1000 crore)<br>10-June-2020(Rs. 750 crore)<br>06-July-2020(Rs. 575 crore) | 3.90% (Rs. 1000 crore)<br>3.94% (Rs. 750 crore)<br>3.60%(Rs. 575 crore) | 18-Aug-2020(Rs. 1000 crore)<br>08-Sep-2020 (Rs. 750 crore)<br>05-Oct-2020 (Rs. 575 crore) | 3,000.0 | [ICRA]A1+ |
| -- | Issuer Rating | -- | -- | -- | -- | [ICRA]AAA (Stable) |

Source: Mangalore Refinery and Petrochemicals Limited

## Annexure-2: List of entities considered for consolidated analysis

| Company Name | Ownership | Consolidation Approach |
|---|---|---|
| ONGC Mangalore Petrochemicals Limited | 51.00% | Full Consolidation |
| Shell MRPL Aviation Fuels and Services Limited | 50.00% | Limited Consolidation |

Source: Mangalore Refinery and Petrochemicals Limited

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## About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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