

March 07, 2022

## ONGC Mangalore Petrochemicals Limited: Ratings reaffirmed at [ICRA]A1+

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial Paper	1,000.00	1,000.00	[ICRA]A1+; reaffirmed
Fund-Based Limits	2,050.00	2,180.00	[ICRA]A1+; reaffirmed
Non-Fund Based Limits	300.00	130.00	[ICRA]A1+; reaffirmed
Unallocated limits	-	40.00	[ICRA]A1+; reaffirmed
<b>Total</b>	<b>3,350.00</b>	<b>3,350.00</b>	

\*Instrument details are provided in Annexure-1

### Rationale

To arrive at the ratings, ICRA has considered a consolidated view of Mangalore Refinery and Petrochemicals Limited (MRPL) and ONGC Mangalore Petrochemicals Limited (OMPL) owing to the impending merger of these companies, expected to be completed by FY2022.

The reaffirmation of the ratings favourably factors 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. After moderating in FY2021 due to subdued demand, the capacity utilisation of the refinery improved in 9M FY2022 to 95%, driven by recovery in demand, although it was partly impacted by a planned shutdown in H1 FY2022. The utilisation of the polypropylene unit also remained healthy in 9M FY2022.

The GRM also improved in 9M FY2022 to \$5.8/bbl compared with \$2.5/bbl in 9M FY2021 due to inventory gains and improved crack spreads. However, the performance of OMPL remained subdued in 9M FY2022 with operating losses due to weak spreads for paraxylene. The consolidated entity witnessed an EBITDA of Rs 1,988 crore in 9M FY2022 against a loss of Rs. 209 crore in 9M FY2021. The ratings also take into account the strong financial flexibility of MRPL due to its strong parentage, besides the company's sizeable unutilised working capital limits. The ratings also factor in the location advantage of being close to the Mangalore port and its diversified crude sourcing.

In January 2021, MRPL had completed the acquisition of ONGC's 49% stake in ONGC Mangalore Petrochemicals Limited (OMPL), acquiring a 99.99% stake in the subsidiary. However, the merger between MRPL and OMPL is awaiting approval from the Ministry of Corporate Affairs and is expected to be completed by March 2022. The merger will diversify MRPL's revenues and lower its exposure to the refining cycle. MRPL's total debt stood at Rs. 16,225 crore at a standalone level and at Rs. 23,833 crore at a consolidated level as of March 31, 2021. The consolidated debt of the entity was Rs. 24,412<sup>1</sup> crore as on September 30, 2021. The gearing and coverage indicators of the consolidated entity moderated in FY2021, but improved in the current fiscal. Further, the ratings also consider the asset concentration risk of being a single location refinery and the sensitivity of the profits to the import duty differential, commodity price cycles and the INR-USD exchange rates.

<sup>1</sup> Excluding current portion of Long-Term debt.

## Key rating drivers and their description

### Credit strengths

**Strong sponsor profile lends 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 managed by ONGC through its nominee directors and senior management. The Chairman of ONGC is the Director & Chairperson of MRPL. ONGC had also extended loans to MRPL at favorable terms for part-funding the large-sized capital expenditure for refinery expansion. Hence, ONGC's parentage offers high financial flexibility to MRPL.

**Healthy operational profile** - MRPL's refinery has been operating at more than 100% capacity utilisation the past. The refinery has witnessed a healthy ramp up in operations since the commissioning of the Phase-III expansion and its polypropylene unit. In FY2020 and FY2021, the capacity utilisation was impacted by factors like water shortage, landslides and Covid-19, though demand and utilisation levels have improved since Q3 FY2021. For 9M FY 2022, the capacity utilisation improved to 95%, with recovery in demand, although it was partly impacted by the planned shutdown in H1 FY2022. The utilisation of the polypropylene unit also remained healthy in 9M FY2022.

**Locational advantage for sourcing crude and 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 to source crude and export products.

**Merger with OMPL to help diversify revenues** - The merger with OMPL, which is expected to be completed by Q4 FY2022, will diversify revenues and lower the exposure to the refining cycle. The combined entity will run its operations on an integrated basis, leading to operational synergies.

### Credit challenges

**Vulnerability to import duty differential, commodity price cycles and forex fluctuations** - Given the nature of the business, the company remains exposed to the movement in the commodity price cycles and the volatility in crude prices. The GRM also improved in 9M FY 2022 to \$5.8/bbl compared with \$2.5/bbl in 9M FY 2021 due to inventory gains and improved crack spreads. Any adverse changes in the import duty on its products would also have an impact on the company's domestic sales. Besides, crude oil and most of the petroleum products are priced in US\$/bbl or US\$/MT, which along with significant foreign currency debt, make the profits vulnerable to foreign currency movements (especially INR-USD levels).

**Weak financial performance of subsidiary, OMPL** - In FY2021, OMPL's operating income declined 31.6% YoY, driven by a decline in plant throughput and the average realisation owing to the weakness in the paraxylene-naphtha spreads and the impact of Covid-19. 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, b) relatively subdued crack spreads of its products, and c) higher fuel costs due to non-availability of natural gas.

In 9M FY2022, OMPL reported operating losses of Rs. 121 crore owing to subdued paraxylene-naphtha spreads during the period. The company produced higher volumes of reformat, a product used in motor spirit (MS) blending, and this production optimisation mitigated the adverse impact on profitability to some extent. The natural gas line from Cochin to Mangalore has been commissioned and OMPL has started using natural gas from the beginning of February 2021. However, due to high gas prices, the company is not using natural gas at present.

Further, OMPL has high debt levels (~Rs. 7,838<sup>2</sup> crore as on December 31, 2021), leading to moderation in the combined entity's debt coverage indicators. MRPL's total debt stood at Rs. 16,225 crore at a standalone level and at Rs. 23,833 crore at

<sup>2</sup> Excluding current portion of Long-Term debt

consolidated level as of March 31, 2021. The consolidated debt of the entity was Rs. 24,412<sup>3</sup> crore as on September 30, 2021. The gearing and coverage indicators of the consolidated entity moderated in FY2021, but improved in the current fiscal.

**Asset concentration risk** - MRPL has refining operations only at Mangalore, Karnataka, and derives all its revenues from the same. The operations at one location expose it to asset-concentration risks such as natural calamities, accidents at the plant etc. Nonetheless, the risk is partly mitigated by various insurance covers that address these risks.

## Liquidity position: Adequate

The liquidity of MRPL is expected to remain adequate, given the sufficient buffer in the form of unutilised working capital limits. The company has witnessed some recovery in its consolidated financial performance in 9M FY2022 with the improvement in cash accruals. Although it has large repayment obligations in FY2022 and FY2023, these are expected to be met partly from accruals and partly refinanced. The company's ability to raise funds from banks and capital markets at fine rates provides comfort from a liquidity perspective.

## Rating sensitivities

**Positive factors** – Not applicable

**Negative factors** – Downward pressure on MRPL's ratings could arise if:

- the credit profile of the ONGC Group weakens
- the linkage between ONGC and MRPL weakens
- there is any significant deterioration in MRPL's consolidated financial risk profile

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology for Downstream Oil Companies</a>
Parent/Group Support	Parent - Oil and Natural Gas Corporation Limited 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 to meet 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, 2021, the company had one subsidiary and one JV, that are enlisted in Annexure-2.

## About the company

ONGC Mangalore Petrochemicals Limited (OMPL) was originally incorporated as Mangalore Petrochemicals Limited on December 19, 2006. The name of the company was subsequently changed to ONGC Mangalore Petrochemicals Limited on April 30, 2007. OMPL has been promoted by Mangalore Refinery & Petrochemicals Limited (51% equity stake) and Oil and Natural Gas Corporation Limited (49% equity stake). It has set up a project in the Mangalore Special Economic Zone (MSEZ),

<sup>3</sup> Excluding current portion of Long-Term debt.

adjacent to the MRPL refinery, to manufacture about 913 KTPA (kilo tonnes per annum) of paraxylene and about 283 KTPA of Benzene. The project also includes a captive power plant of 72 MW capacity which can utilise natural gas, LSHS (low sulphur heavy stock) or diesel as fuel. The project cost was estimated at about Rs. 5,750 crore, which was funded in debt-to-equity ratio of 65:35 though it witnessed cost overruns of about Rs. 1,160 crore. OMPL declared its commercial operation date (COD) as April 1, 2014, though the plant was initially in trial runs and commercial production commenced in October 2014. On July 8, 2015, MRPL announced that its board has approved the scheme of amalgamation of OMPL with itself. The no-objection certificate (NOC) for the merger was received from the MoPNG (Ministry of Petroleum and Natural Gas) in April 2018. In January 2021, MRPL acquired ONGC's 49% stake in OMPL, increasing its stake in the subsidiary to 99.99%.

### Key financial indicators (audited)

OMPL	FY2020	FY2021
Operating Income (Rs. crore)	4,954	3,389
PAT (Rs. crore)	-1,404	-456
OPBDIT/OI (%)	-10.6%	0.5%
PAT/OI (%)	-28.3%	-13.4%
Total Outside Liabilities/Tangible Net Worth (times)	-24.3	-9.7
Total Debt/OPBDIT (times)	-12.5	441.9
Interest Coverage (times)	-1.0	0.1

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

### About the Parent (MRPL)

Mangalore Refinery & Petrochemicals Limited (MRPL) was set up as a joint venture between the AV Birla Group and Hindustan Petroleum Corporation Limited (HPCL). MRPL operates a refinery at Mangalore, with a nameplate capacity of 15 million metric tonnes 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 the 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. This, together with high debt service commitments, 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, fund 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, viz. ONGC Mangalore Petrochemicals Limited (OMPL). In January 2021, MRPL acquired ONGC's stake in OMPL, increasing its stake in OMPL from 51% to 99.99%.

### Key financial indicators (audited)

MRPL Consolidated	FY2020	FY2021
Operating Income (Rs. crore)	50,230	32,058
PAT (Rs. crore)	-4,044	-765
OPBDIT/OI (%)	-4.5%	1.8%
PAT/OI (%)	-8.1%	-2.4%
Total Outside Liabilities/Tangible Net Worth (times)	3.7	6.9
Total Debt/OPBDIT (times)	-8.1	40.4
Interest Coverage (times)	-1.8	1.1

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

### Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years				
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating on	Date & Rating in FY2021		Date & Rating in FY2020	Date & Rating in FY2019	
						March 7, 2022	Mar 19, 2021			Oct 28, 2020
1	Fund Based – Working Capital Facilities	Short Term	2,180.0	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+&	[ICRA]A1+&	
2	Non-fund based – Working Capital Facilities	Short Term	130.0	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+&	[ICRA]A1+&	
3	Commercial Paper	Short Term	1,000.0	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+&	[ICRA]A1+&	
5	Unallocated	Short Term	40.0	-	[ICRA]A1+	-	-	-		

& under watch with developing implication

### Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund Based – Working Capital Facilities	Simple
Non-fund based – Working Capital Facilities	Very Simple
Commercial Paper	Very Simple
Unallocated	NA

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analyzing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: [www.icra.in](http://www.icra.in)

### Annexure-1: Instrument Details

ISIN No/Banker Name	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs Crore)	Current Rating and Outlook
NA	Fund Based – Working Capital Facilities	NA	NA	NA	2,180.0	[ICRA]A1+
NA	Non-fund based – Working Capital Facilities	NA	NA	NA	130.0	[ICRA]A1+
NA	Commercial Paper*	NA	NA	NA	1,000.0	[ICRA]A1+
NA	Unallocated	NA	NA	NA	40.0	[ICRA]A1+

Source: Company; \*Currently no outstanding commercial paper

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### Annexure-2: List of Entities Considered for Consolidated Analysis

Company Name	Ownership	Consolidation Approach
ONGC Mangalore Petrochemicals Limited	99.99%	Full Consolidation
Shell MRPL Aviation Fuels and Services Limited	50.00%	Equity Method

Source: Company

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