

May 29, 2023

Mangalore Refinery and Petrochemicals Limited: Ratings reaffirmed; rated amount enhanced; commercial paper rating withdrawn

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible debentures	2,560.00	2,560.00	[ICRA]AAA (Stable); reaffirmed
Commercial paper	4,000.00	0.00	[ICRA]A1+; reaffirmed and withdrawn
Term loan	5,250.01	6,613.39	[ICRA]AAA(Stable); reaffirmed/assigned
Fund-based limits	6,156.75	7,461.75	[ICRA]AAA(Stable); reaffirmed/assigned
Non-fund based limits	7,793.24	12,412.80	[ICRA]A1+; reaffirmed/assigned
Issuer rating	-	-	[ICRA]AAA(Stable); reaffirmed
Unallocated limits	-	0.06	[ICRA]AAA(Stable)/[ICRA]A1+; assigned
Total	25,760.00	29,048.00	

*Instrument details are provided in Annexure-1

Rationale

The assigned ratings favourably factor in the majority ownership of Oil and Natural Gas Corporation (ONGC; [ICRA]AAA(Stable)/[ICRA]A1+) and ONGC's continued support to Mangalore Refinery and Petrochemicals Limited (MRPL), which is expected to be sustained given its strategic importance for ONGC's forward integration plans. The ratings continue to factor in the advantageous location of the refinery on the west coast, close to the Mangalore port, providing logistical benefits for crude sourcing and exports. MRPL's operational performance improved in FY2023 with a throughput of 114% (99% in FY2022) and gross refining margin (GRM) of \$9.88/bbl (\$8.60/bbl in FY2022).

The refining margins witnessed strong uptick in Q1 and Q4 of FY2023, driven by healthy crack spreads for gasoline, ATF and diesel, while in Q2 and Q3 of FY2023, the GRMs were impacted by the levy of Special Additional Excise Duty (SAED) and Road & Infrastructure Cess (RIC) along with the moderation in the crack spreads. As a result, the company posted an operating profit of Rs. 6,497 crore in FY2023 against Rs. 5,200 crore in FY2022. The healthy cash generation also moderated the consolidated debt to Rs. 16,939 crore as on March 31, 2023 from Rs. 21,085 crore as on March 31, 2022, with reduction primarily in working capital debt. Going forward, the company's GRMs are expected to moderate from the FY2023 levels in line with the expected moderation in the crack spreads.

The ratings, however, are constrained by 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 INR-USD exchange rates.

The Stable outlook on the [ICRA]AAA rating reflects ICRA's opinion that MRPL will continue to benefit from its established position in the domestic energy sector.

ICRA has reaffirmed and withdrawn the rating of [ICRA]A1+ on the Rs. 4000 crore commercial papers of MRPL. There is no amount outstanding against the commercial papers, ratings are withdrawn at the request of the company and in accordance with ICRA's policy on withdrawal.

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 being 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 favourable 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. There was a healthy ramp up in operations since the commissioning of the Phase-III expansion and its polypropylene unit. In FY2020 and FY2021, capacity utilisation was impacted by factors like water shortage, landslides, and Covid-19, though the demand and utilisation levels have improved since Q3 FY2021. The capacity utilisation for FY2023 was ~114% (99% in FY2022), driven by healthy demand for petroleum products in the domestic and export markets. The amalgamation of OMPL is also expected to provide some synergy as the combined entity will run its operations in an integrated manner.

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 refinery's location is logistically advantageous to source crude and export products.

Credit challenges

Vulnerability to import duty differential, commodity price cycles and forex fluctuations – MRPL's margins are vulnerable to the movements in international crude prices and crack spreads, import duty differentials and foreign exchange rates (INR-US). The GRMs improved to \$8.72/bbl in FY2022 from \$3.90/bbl in FY2021, aided by inventory gains and improved crack spreads. The GRMs further improved to \$9.88/bbl in FY2023, driven by healthy crack spreads in Q1 and Q4 FY2023. However, the GRMs were impacted in Q2 and Q3 FY2023 due to the moderation in crack spreads and the levy of special additional excise duty (SAED) and road & infrastructure cess (RIC) on the export of high-speed diesel, aviation turbine fuel and petrol.

Asset concentration risk - MRPL has refining operations only at Mangalore, Karnataka, and derives all its revenues from this single unit. The operations at one location expose it to asset-concentration risks such as natural calamities, accidents at the plant etc. 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's consolidated financial performance recovered in FY2023 with the improvement in cash accruals. Although it has large repayment obligations in FY2024 and FY2025, 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 competitive interest rates provides comfort from a liquidity perspective.

Rating sensitivities

Positive factors – Not applicable

Negative factors – Pressure on MRPL's ratings could arise if the credit profile of the ONGC Group weakens or the linkage between ONGC and MRPL weakens. Any significant deterioration in MRPL's consolidated financial risk profile will also exert pressure on the ratings.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Downstream Oil Companies Rating Approach – Implicit parent or group support Policy on Withdrawal of Credit Ratings
Parent/Group Support	Parent - Oil and Natural Gas Corporation Limited ICRA expects 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, 2023, the entities consolidated are listed in Annexure-2

About the company

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 the 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 to 99.99% from 51%. The Ministry of Corporate Affairs, vide its final order dated April 14, 2022, approved the amalgamation of ONGC Mangalore Petrochemicals Limited with Mangalore Refinery and Petrochemicals Limited with April 01, 2021 as the appointed date and the effective date for the scheme of amalgamation as May 01, 2022.

Key financial indicators (audited)

MRPL Consolidated	FY2022	FY2023
Operating income (Rs. crore)	69,727	108,856
PAT (Rs. crore)	2,951	2,617
OPBDIT/OI (%)	7.5%	6.0%
PAT/OI (%)	4.2%	2.4%
Total outside liabilities/Tangible net worth (times)	4.3	2.4
Total debt/OPBDIT (times)	4.1	2.6
Interest coverage (times)	4.3	5.1

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 (FY2024)				Chronology of rating history for past 3 years									
	Type	Amount rated (Rs. crore)	Amount outstanding as on March 31, 2023 (Rs. crore)	Date & rating in FY2024		Date & rating in FY2023		Date & rating in FY2022			Date & rating in FY2021			
				May 29, 2023	April 13, 2023	Oct 14, 2022	Sep 27, 2022	Mar 7, 2022	Jun 02, 2021	Mar 19, 2021	Oct 28, 2020	Jul 24, 2020	May 18, 2020	May 05, 2020
1 NCDs	Long Term	2,560.00	2,560.00	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Negative)	[ICRA]AAA (Negative)
2 Fund-based limits	Long Term	7461.75	-	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Negative)	[ICRA]AAA (Negative)
3 Term loan	Long Term	6613.39	6613.39	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Negative)	[ICRA]AAA (Negative)
5 Non-fund based limits	Short term	12,412.80	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
6 Commercial paper	Short term	4,000.00	-	[ICRA]A1+; withdrawn	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
7 Issuer rating	Long Term	-	-	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Negative)	[ICRA]AAA (Negative)
8 Unallocated limits	Long Term/ Short Term	0.06	-	[ICRA]AAA (Stable)/ [ICRA]A1+	-	-	-	-	-	-	-	-	-	-
9 Unallocated limits	Long Term	-	-	-	-	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	-	-	-	-	-	-	-
10 Unallocated limits	Short term	-	-	-	-	[ICRA]A1+	-	-	-	-	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Non-convertible debenture programme	Very Simple
Commercial paper	Very Simple
Term loan	Simple
Fund-based limits	Simple
Non-fund based limits	Very Simple
Issuer ratings	NA
Unallocated limits	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 analysing 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 are available on ICRA's website: [Click Here](#)

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs Crore)	Current Rating and Outlook
INE103A08027	Non-convertible debentures	January 13, 2020	6.64%pa	April 14, 2023	500.00	[ICRA]AAA(Stable)
INE103A08019	Non-convertible debentures	January 13, 2020	7.40%pa	April 12, 2030	1,000.00	[ICRA]AAA(Stable)
INE103A08035	Non-convertible debentures	January 29, 2020	7.75%pa	January 29, 2030	1,060.00	[ICRA]AAA(Stable)
NA	Term loan – FCTL	February 20, 2023	#	March 28, 2028	4,521.61#	[ICRA]AAA(Stable)
NA	Term loan - FCNR	February 12, 2021	#	July 26, 2024	728.40#	[ICRA]AAA(Stable)
NA	Term loan - ECB	June 29, 2018	#	June 29, 2023	413.38	[ICRA]AAA(Stable)
NA	Term loan - RTL	February 1, 2023	^	December 30, 2026	300.00	[ICRA]AAA(Stable)
NA	Term loan - RTL	Yet to be issued	-	-	650.00	[ICRA]AAA(Stable)
NA	Fund-based limits	-	-	-	7,461.75	[ICRA]AAA(Stable)
NA	Non-fund based limits	-	-	-	12,412.80	[ICRA]A1+
NA	Commercial paper*	-	-	-	4,000.00	[ICRA]A1+; withdrawn
NA	Unallocated limits	-	-	-	0.06	[ICRA]AAA(Stable)/ [ICRA]A1+
NA	Issuer rating	-	-	-	-	[ICRA]AAA(Stable)

Source: Company | *Currently no outstanding commercial paper | # FCTL of \$550 million (for working capital) at USD/INR 82.2110 with interest rate of 3 months' term SOFR (With zero floor) + 125 bps, FCNR of \$100 million (for capex) at USD/INR 72.8399 with interest rate of 6 months' USD Libor + 150bps, ECB of \$50 million at USD/INR 82.6750 with interest rate of 6 months' USD Libor + 98bps | ^to be fixed at the time of drawdown

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Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Shell MRPL Aviation Fuels and Services Limited	50.00%	Equity Method

Source: Company

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