

May 27, 2024

Mangalore Refinery and Petrochemicals Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term - Non-convertible debentures	2,060.00	2,060.00	[ICRA]AAA (Stable); reaffirmed
Long term - Term loan	5,250.01	4,630.87	[ICRA]AAA(Stable); reaffirmed
Short term - Term loan	1,000.00	1,000.00	[ICRA]A1+; reaffirmed
Long term - Fund-based limits	6,846.00	6,841.00	[ICRA]AAA(Stable); reaffirmed
Short term - Non-fund based limits	13,016.00	13,016.00	[ICRA]A1+; reaffirmed
Issuer rating	-	-	[ICRA]AAA(Stable); reaffirmed
Long term/ Short term - Unallocated limits	375.99	1,000.13	[ICRA]AAA(Stable)/[ICRA]A1+; reaffirmed
Total	28,548.00	28,548.00	

*Instrument details are provided in Annexure-I

Rationale

The ratings for the credit facilities of Mangalore Refinery and Petrochemicals Limited (MRPL/the company) factor in the strong sponsor profile with Oil and Natural Gas Corporation Limited (ONGC; [ICRA]AAA(Stable)/[ICRA]A1+) and Hindustan Petroleum Corporation Limited (HPCL, rated [ICRA]AAA (Stable)/[ICRA]A1+) holding 71.63% and 16.96% of the company respectively. The strong sponsor profile results in exceptional financial flexibility and operational benefits for MRPL. The ratings also factor in ONGC's continued support for MRPL, which is expected to be sustained, given the company's strategic importance for ONGC's forward-integration plans. The ratings continue to factor in the advantageous location of MRPL's refinery on the west coast, near the Mangalore port, providing logistical benefits for crude sourcing and exports.

MRPL's operational and financial performance has significantly improved during the course of FY2022 to FY2024 characterised by robust gross refining margins (GRMs) which have stood healthy at \$10.36/bbl in FY2024, \$9.88/bbl in FY2023 and \$8.72/bbl in FY2022. Previously the GRMs had remained in the range of \$5/bbl to \$7.75/bbl prior to FY2022. The refinery throughput has also remained over 110% in FY2024 and FY2023. Owing to strong cash generation the company has pared down its debt levels resulting in an improvement in the overall credit metrics. The total debt/OPBDITA improved to 1.62x in FY2024 from 2.12x in FY2023 and 4.05x in FY2022. The company's interest coverage ratio has also improved to 6.91x in FY2024 from 6.06x in FY2023 and 4.29x in FY2022. ICRA expects the company's GRMs to remain near about current levels, although the same will remain exposed to the volatility in the crack spreads for petroleum products, which along with the planned capex program may result in the moderation in the credit profile over the current levels. Nevertheless, the overall credit profile will remain comfortable. The ratings also factor in the locational advantage of MRPL's coastal refinery enabling the company to maintain lower crude oil inventories and export finished products without incurring significant freight costs.

The ratings are constrained by the asset concentration risk owing to MRPL's single-location refinery and the sensitivity of profits to import duty differential, commodity price cycles and INR-USD exchange rates.

The Stable outlook on the [ICRA]AAA rating reflects ICRA's opinion that the company's cash generation from operations for along with the exceptional financial flexibility of the company owing to its parentage will keep its overall credit profile stable.

Key rating drivers and their description

Credit strengths

Strong sponsor profile lends financial flexibility – The company benefits from its sponsor profile with ONGC and HPCL holding 71.63% and 16.96% of the company respectively. The strong sponsor profile results in exceptional financial flexibility and operational benefits for the company. The ratings also factor in ONGC's continued support to MRPL, which is expected to be sustained, given the company's strategic importance for ONGC's forward-integration plans.

Healthy operational profile – The company's operational profile has improved over the past few years with throughput remaining over 110% since FY2023 and healthy GRMs. The company has optimised the production in the aromatic complex switching between production between para-xylene and reformate depending on the accretive effect on the GRMs.

Locational advantage for sourcing crude and exports – The company's refinery is located on the west coast of India near the New Mangalore port. The coastal location offers certain advantages such as maintaining lower crude oil inventories and incurrance of lower freight costs for export of finished products. Consequently, as the company has to maintain lower crude oil inventories, the volatility in the GRMs owing to the inventory gains/losses will be lower than the inland refineries.

Credit challenges

Vulnerability of cash generation to refining margin cycles, import duty protection and INR-USD parity levels – The crude oil refining industry remains capital-intensive with lumpy capacity additions. The consumption of end products is closely tied to the economic performance. As a result, the refining margins have showcased significant cyclicity over the years. The same has been witnessed in MRPL's performance over the course of last decade with GRMs ranging between -\$0.23/bbl in FY2020 to \$10.36/bbl in FY2024. The Indian refiners also benefit from the duty differentials on finished products and import of crude oil. Any adverse statutory change, on this front could negatively impact the company's cash generation. The company's import of crude as well as sale of finished products is denominated in US dollars providing a natural hedge to the operations. However, in the absence of an active hedging policy and presence of foreign currency debt on the books of the company, the cash generation remains exposed to the movement in the USD-INR exchange rates to some extent.

Asset concentration risk – The company's operations are concentrated to a single refinery and petrochemical complex located at one site. Consequently, the company remains exposed to asset concentration risk, as natural calamities, accidents, or other events can lead to significant operational disruptions.

Environmental & Social Risks

MRPL is exposed to the risks of tightening regulations on environment and safety. However, MRPL has been compliant with all the environmental regulations, enabling it to mitigate the regulatory risks by demonstrating a sound operational track record and ensuring regulatory compliance. Nonetheless, MRPL remains exposed to the longer-term risk of the ongoing shift towards a future that is less dependent on fossil fuels. But this is a risk that will play out only over the distant future as India remains heavily dependent on oil and gas imports. MRPL's ability to adapt its business model, including diversification into new segments, would be a key rating driver from a longer-term credit perspective.

Liquidity position: Adequate

MRPL's liquidity is expected to remain adequate, given the sufficient buffer in the form of unutilised working capital limits. The company's cash generation is expected to remain adequate to meet its debt repayment obligations for FY2025 and cover the equity portion of its capex program. Although there are large repayment liabilities in FY2026, ICRA expects the company may partly refinance these obligations if the need arises. The strong sponsor profile has enabled the company to raise funds from banks and capital markets as per requirements, which has kept its liquidity position adequate.

Rating sensitivities

Positive factors – Not applicable.

Negative factors – Pressure on MRPL’s ratings could arise if ONGC Group’s credit profile 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	Rating methodology for Refining and Marketing Corporate Credit Rating Methodology
Parent/Group Support	Parent - Oil and Natural Gas Corporation Limited. ICRA expects MRPL’s parent, ONGC [rated [ICRA]AAA(Stable)/[ICRA]A1+], 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, 2024, the entities consolidated are listed in Annexure-II

About the company

MRPL set up as a joint venture between the AV Birla Group and Hindustan Petroleum Corporation Limited (HPCL). ONGC acquired a 51% stake in MRPL in March 2003, and later increased its stake to 72%. With a change in management from joint venture to ONGC and fund infusion by ONGC and the upturn in the refining margin cycle, the company’s performance improved subsequently. 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 the high debt service commitments, resulted in MRPL posting large losses in the past.

The refining capacity was enhanced to 15 MMTPA from 11.82 MMTPA in March 2012 with the commissioning of third phase of expansion. 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. The effective date for the scheme of amalgamation was May 01, 2022.

Key financial indicators (audited)

MRPL Consolidated	FY2022	FY2023	FY2024
Operating income (Rs. crore)	69,727	108,856	90,407
PAT (Rs. crore)	2,951	2,617	3,582
OPBDITA/OI (%)	7.5%	7.2%	8.5%
PAT/OI (%)	4.2%	2.4%	4.0%
Total outside liabilities/Tangible net worth (times)	4.3	2.4	1.6
Total debt/OPBDIT (times)	4.1	2.1	1.6
Interest coverage (times)	4.3	6.1	6.9

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

PAT: Profit after tax; OPBDITA: 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	Type	Amount rated (Rs. crore)	Current rating (FY2025)		Chronology of rating history for past 3 years									
			Amount outstanding as of March 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024				Date & rating in FY2023		Date & rating in FY2022			
					May 27, 2024	Feb 02, 2024	Sept 21, 2023	Jun 5, 2023	May 29, 2023	Apr 13, 2023	Oct 14, 2022	Sep 27, 2022	Mar 7, 2022	Jun 02, 2021
1	NCDs	Long Term	2,060.00	2,060.00	[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 (Stable)
2	NCDs	Long Term	-	-	-	-	-	[ICRA]AAA (Stable); withdrawn	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
2	Fund-based limits	Long Term	6,841.00	-	[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 (Stable)
3	Term loan	Long Term	4,630.87	4630.87	[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 (Stable)
4	Term loan	Short term	1,000.00*	1000.00	[ICRA]A1+	[ICRA]A1+	-	-	-	-	-	-	-	-
5	Non-fund based limits	Short term	13,016.00	-	[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	-	-	-	-	-	-	[ICRA]A1+; withdrawn	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
7	Issuer	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 (Stable)

rating													
8	Unallocated limits	Long Term/ Short Term	1,000.13	-	[ICRA]AAA	[ICRA]AAA	[ICRA]AAA	[ICRA]AAA	[ICRA]AAA	-	-	-	-
					(Stable)/	(Stable)/	(Stable)/	(Stable)/	(Stable)/				
9	Unallocated limits	Long Term	-	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	-	[ICRA]AAA	[ICRA]AAA	-
					(Stable)	(Stable)	(Stable)	(Stable)	(Stable)		(Stable)		
10	Unallocated limits	Short term	-	-	-	-	-	-	-	-	[ICRA]A1+	-	-

**includes working capital limits as sublimit*

Complexity level of the rated instruments

Instrument	Complexity Indicator
Non-convertible debenture programme	Very Simple
Long term - Term loans	Simple
Short term – 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 I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
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	4,630.87	[ICRA]AAA(Stable)
NA	Term loan - FCNR	February 12, 2021	#	July 26, 2024		[ICRA]AAA(Stable)
NA	Short term – Term loan	October 4, 2023	8.25%pa	October 3, 2024	1000.00	[ICRA]A1+
NA	Fund-based limits	-	-	-	6,841.00	[ICRA]AAA(Stable)
NA	Non-fund-based limits	-	-	-	13,016.0	[ICRA]A1+
NA	Unallocated limits	-	-	-	1,000.13	[ICRA]AAA(Stable)/ [ICRA]A1+
NA	Issuer rating	-	-	-	-	[ICRA]AAA(Stable)

Source: Company | # 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

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: 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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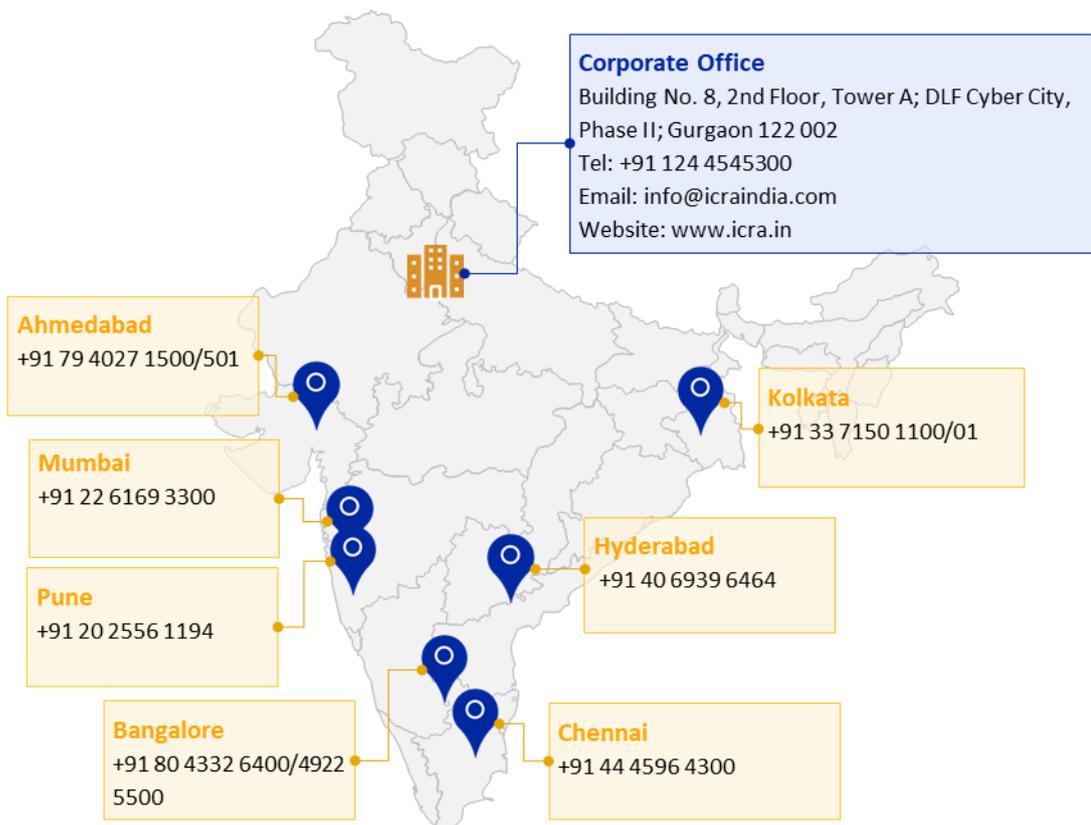
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