

Mangalore SEZ Limited

Instrument	Amount rated	Rating Action
Long-term : Term Loan	Rs. 700.0 crore	Upgraded to [ICRA] A (stable) from [ICRA]A- (Stable)

ICRA has upgraded a long-term rating to the term loan facilities aggregating to Rs. 700 crore¹ of Mangalore SEZ Limited (MSEZ, or the company)² from [ICRA]A- (pronounced ICRA A minus) to [ICRA]A (pronounced ICRA A). The outlook on the long-term rating is 'Stable'

The rating upgrade takes into account of the cash flow benefit expected in the initial period subsequent to debt refinancing over a longer maturity of 20 year from an existing 9 year, under the proposed 5/25 scheme for which its lead banker has given in-principle approval in April 2016. While revising the rating, ICRA also notes that SEZ project is fully operational since April 2015 with all the critical infrastructure services (i.e. water supply, power distribution & effluent disposal) as well as the road-cum-pipeline connectivity corridor being functional.

The ratings continue to factor the company's strong sponsor profile and the fundamental competitive advantages for its SEZ project, arising from its location in Mangalore with proximity to port, availability of basic feed-stocks for the intermediate & downstream units in the petrochemical sector value chain as well as Multi-Product category of SEZ. ICRA also notes that SEZ project has tied-up about 72% of its processing area with the reputed customers which includes ONGC Mangalore Petrochemicals Ltd (OMPL) (as anchor customer), JBF Petrochemicals Ltd & Indian Strategic Petroleum Reserves Ltd. The company has also signed take or pay agreements for water supply upto minimum contracted quantity with the existing customers which in turn ensures a stable revenue stream for the company.

The ratings are however constrained by the marketing risks for the balance area (278 acres) which is pending for tie-up, with the continuing investment slowdown, given that any delays in tie-up for balance customers could affect the recovery of lease premium as well as earnings for operation & maintenance recovery for use of infrastructure facilities. Given that the recovery of water charges is the key source of revenue during the operating phase, ability to maintain the water supplies (both fresh river water and treated sewage water) as well as build-up of water demand from the new customers remains crucial from credit perspective. Further, investment demand in the SEZ region remains exposed to regulatory uncertainty over the continuation of tax benefits for the units as well as risk of any deferment and/or execution delays in the project capital expenditure by the project customers. Nonetheless, company's ability to realise the revenues from sale of area in the non-processing zone as well as other measures to scale up the operations would determine its upside potential & financial flexibility in the long run. Moreover, timeliness in securing the approvals for 5/25 scheme from other lenders so as to implement debt refinancing remains important for its credit profile.

Company Profile

Mangalore SEZ Ltd (MSL, the company) is a project Special Purpose Vehicle (SPV) incorporated in February 2006 & co-promoted by Oil and Natural Gas Corporation Ltd (ONGC) (26%), Infrastructure Leasing & Finance Services Ltd (ILFS) (50%), Karnataka Industrial Areas Development Board (KIADB) (23%) and others (1%). The company is implementing Special Economic Zone (SEZ) to be spread over the area of 1638 acres in Phase 1, located in Dakshina Kannada District of Mangalore. The company has also received Multi-Product SEZ Notification from the Ministry of Commerce & Industries, GoI in September 2013. The SEZ is in close proximity to New Mangalore Port as well as to the existing refinery of Mangalore Refinery & Petrochemicals Ltd (MRPL), which provides feedstock proximity to the petrochemical units in the SEZ. Also, ONGC Mangalore Petrochemicals Ltd (OMPL) is the anchor customer of the SEZ which further provides the additional sources of raw materials (aromatics) for the downstream processing units in the SEZ. The company has declared the commercial operations date in April 2015.

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¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications.



For further details please contact:

Analyst Contacts:

Mr. K. Ravichandran, (Tel. No. +91-44-45964301)

ravichandran@icraindia.com

Relationship Contacts:

Mr. Jayanta Chatterjee (Tel. No. +91-80-43326401)

jayantac@icraindia.com

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**Registered Office****ICRA Limited**

1105, Kailash Building, 11th Floor, 26, Kasturba Gandhi Marg, New Delhi 110001
Tel: +91-11-23357940-50, Fax: +91-11-23357014

Corporate Office**Mr. Vivek Mathur**

Mobile: +91 9871221122

Email: vivek@icraindia.com

Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002
Ph: +91-124-4545310 (D), 4545300 / 4545800 (B) Fax; +91- 124-4050424

Mumbai**Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: shivakumar@icraindia.com

3rd Floor, Electric Mansion
Appasaheb Marathe Marg, Prabhadevi
Mumbai—400025,
Board : +91-22-61796300; Fax: +91-22-24331390

Kolkata**Mr. Jayanta Roy**

Mobile: +91 9903394664

Email: jayanta@icraindia.com

A-10 & 11, 3rd Floor, FMC Fortuna
234/3A, A.J.C. Bose Road
Kolkata—700020
Tel +91-33-22876617/8839 22800008/22831411,
Fax +91-33-22870728

Chennai**Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: jayantac@icraindia.com

5th Floor, Karumuttu Centre
634 Anna Salai, Nandanam
Chennai—600035
Tel: +91-44-45964300; Fax: +91-44 24343663

Bangalore**Bangalore****Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: jayantac@icraindia.com

'The Millenia'
Tower B, Unit No. 1004, 10th Floor, Level 2 12-14, 1 & 2,
Murphy Road, Bangalore 560 008
Tel: +91-80-43326400; Fax: +91-80-43326409

Ahmedabad**Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: shivakumar@icraindia.com

907 & 908 Sakar -II, Ellisbridge,
Ahmedabad- 380006
Tel: +91-79-26585049, 26585494, 26584924; Fax:
+91-79-25569231

Pune**Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: shivakumar@icraindia.com

5A, 5th Floor, Symphony, S.No. 210, CTS 3202, Range
Hills Road, Shivajinagar, Pune-411 020
Tel: + 91-20-25561194-25560196; Fax: +91-20-
25561231

Hyderabad**Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: jayantac@icraindia.com

4th Floor, Shobhan, 6-3-927/A&B. Somajiguda, Raj
Bhavan Road, Hyderabad—500083
Tel:- +91-40-40676500