

ONGC Petro additions Limited

July 12, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-Convertible Debenture	--	3,000	Provisional [ICRA]AAA(S) (Stable); Assigned
Compulsorily Convertible Debenture	7,286	7,286	[ICRA]AAA(SO) (Stable); Outstanding
Total	7,286	10,286	

Rating action

ICRA has assigned a long-term rating of Provisional [ICRA]AAA(S) (pronounced Provisional ICRA triple A S) to the Rs. 3,000-crore¹ non-convertible debenture (NCD) programme of ONGC Petro additions Limited (OPaL)². The outlook on the long-term rating is Stable. The rating has been assigned based on a Letter of Comfort (LOC) from Oil and Natural Gas Corporation Limited (ONGC; rated [ICRA]A1+). The letter S in parenthesis suffixed to a rating symbol denotes that the rating is supported by a letter of comfort. S ratings do not represent ICRA's opinion on the general credit quality of the issuers concerned. The provisional rating assigned is provisional as of now (as denoted by the symbol 'Provisional' prefixed to the rating symbol) and is subject to the fulfilment of all conditions under the structure and review of final documentation pertaining to the instrument rated by ICRA, besides the executed documentation being in line with ICRA's expectations. The final rating may differ from the provisional rating in case the completed documentation is not in line with ICRA's expectations.

ICRA also has a long-term rating of [ICRA]AAA(SO) (pronounced ICRA triple A structured obligation) with Stable outlook outstanding on the Rs. 7,286-crore compulsorily convertible debenture (CCD) programme of OPaL. The rating is based on an unconditional and irrevocable put option from ONGC for buying the CCDs from the investors, and also an undertaking from ONGC for meeting the coupon payment on the instrument.

Rationale

ICRA's rating action is based on the strength of the Letter of Comfort (LOC) issued by ONGC against the Rs. 3,000 crore NCD programme of OPaL. The provisional rating is subject to the execution of the aforesaid LOC in line with the draft terms shared with ICRA. The rating also takes into account the strong parentage of the company with ONGC as its primary sponsor and the strong linkages of the company's operations with ONGC. Furthermore, ONGC's Chairman is currently serving as the Chairman of OPaL's Board of Directors. ICRA, however, notes that scale up of operations to achieve optimum plant utilisation levels would be critical for OPaL in the near to medium term so as to achieve meaningful return and debt coverage indicators.

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

Outlook: Stable

ICRA believes OPaL will benefit from its strong parentage and its strategic importance to ONGC's forward integration plans. The outlook may be revised to 'Negative' if there is a material deterioration in the financial profile of ONGC or if the linkage between ONGC and OPaL weakens.

Key rating drivers

Credit strengths

Letter of Comfort (LOC) from ONGC - The rating for the Rs. 3,000 crore NCD programme is based on the strength of the LOC from ONGC. The LOC from ONGC shall be backed by a board resolution. As per the terms of the LOC, The LOC Provider (ONGC) shall ensure that the Issuer meets its obligations on the rated NCDs in a timely manner. The LOC shall be irrevocable and unconditional and valid for the entire duration of the rated NCDs.

Strong parentage being part of ONGC group of companies – OPaL benefits from its strong parentage with ONGC holding 49.36% equity stake and GAIL (India) Limited ([ICRA]AAA (Stable) / [ICRA]A1+) holding another 49.21% stake in the company. The senior officials from ONGC are part of the board of directors/management team of OPaL with the Chairman of ONGC also acting as the Chairman of OPaL.

Strong operational linkages with ONGC – OPaL's petrochemicals complex is part of the forward integration plans of ONGC. The entire feedstock for OPaL is currently being sourced from ONGC. The naphtha requirement is met from the gas processing plants of ONGC at Hazira and Uran whereas the C2/C3/C4 requirement is met from ONGC's extraction plant at Dahej. Once the operations of OPaL scale up, it would require certain feedstock to be partly imported but ONGC would continue to be its main feedstock supplier.

Credit weaknesses

Sizeable debt levels due to increase in project cost with delays in commissioning; healthy ramp up of operations remains critical – The project had witnessed sizeable delays in commissioning which resulted in an increase in the overall project cost that has been largely debt-funded. In addition, the company incurred sizeable cash losses in its first full year of operations in FY2018 due to sub-par utilisation levels which further increased the funding requirements. The company's overall borrowing levels thus remain high with an increase in reliance on short-term debt apart from the project debt already on its books. Thus, the company's ability to ramp up its operations to achieve optimum utilisation levels in the near to medium term would remain important so as to achieve meaningful return and debt coverage indicators.

Analytical approach: For arriving at the ratings, ICRA has taken into account the letter of comfort provided by ONGC.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

[Approach for rating debt instruments backed by third-party explicit support](#)

About the company

ONGC Petro additions Limited (OPaL) is a Joint Venture promoted by Oil and Natural Gas Corporation Limited (ONGC) and GAIL (India) Limited (GAIL). OPaL has setup a 1.1 MMTPA (million metric tonnes per annum) greenfield petrochemicals complex at Dahej SEZ in Gujarat. The project design has been prepared by Foster Wheeler Energy Limited. Engineers India Limited is the single point Project Management Consultant. The project uses ethane (C2), propane (C3), butane (C4), aromatic rich naphtha (ARN) and low aromatic naphtha (LAN) as feedstock to produce basic downstream petrochemical products, viz. HDPE, LLDPE, Polypropylene, Butadiene, and by-products are PyGas, CBFS, Benzene and Propylene etc. The project was estimated to be commissioned by June 2015 at a cost of Rs. 27,011 crore funded in debt to equity ratio of 58:42. The project, however, faced delays and it became operational from January 2017.

Key Financial Indicators – Standalone (Audited)

	FY2017	FY2018
Operating Income (Rs. crore)	109	5,592
PAT (Rs. crore)	-882	-2,220
OPBDIT/ OI (%)	-78.9%	6.4%
RoCE (%)	-12.6%	-3.1%
Total Debt/ TNW (times)	9.1	46.0
Total Debt/ OPBDIT (times)	-74.4	79.3
Interest coverage (times)	-0.1	0.2

About Oil and Gas Natural Corporation Limited:

ONGC is a premier integrated oil and gas company in India, accounting for 62% of the country's crude oil production and 72% of its natural gas production in FY2018. It is also a significant producer of value-added products such as liquefied petroleum gas (LPG), superior kerosene oil (SKO), and naphtha. GoI is the majority shareholder in ONGC, with a 67.72% equity stake as of now. ONGC set up OVL in 1965 as its fully-owned overseas E&P arm. But given the focus on domestic E&P at that time, OVL remained more or less dormant for nearly three-and-half decades. However, this changed since the early 2000s with the issue of acquiring energy security assuming critical importance for the country. Today, OVL has equity stake in 41 projects spread across 20 countries, of which fifteen are producing properties. ONGC also has 71.63% equity stake in Mangalore Refinery and Petrochemicals Limited (MRPL), a standalone refinery with an installed capacity of 15 million metric tonnes per annum (MMTPA) and 51.11% stake in Hindustan Petroleum Corporation Limited (HPCL), which operates two refineries with a total capacity of 15.8 MMTPA. Besides, ONGC is also a co-promoter of a number of companies.

On a consolidated basis, the company reported a group net profit of Rs. 21,478.4 crore on revenue from operations of Rs. 1,42,149.0 crore in FY2017, as against Ind-AS restated group net profit of Rs. 13,101.6 crore on revenue from operations of Rs. 1,35,664.2 crore in FY2016.

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Current Rating (FY2019)				Chronology of Rating History for the past 3 years			
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. Crore)	Date & Rating	Date & Rating in FY2018		Date & Rating in FY2017
				July 2018	Sept 2017	May 2017	August 2016
1 Non-convertible debenture	Long term	3,000	--	Provisional [ICRA]AAA(S) (Stable)	--	--	--
2 Compulsorily convertible debenture 1	Long term	5,615	5,615	[ICRA]AAA(SO) (Stable)	[ICRA]AAA(SO) (Stable)	[ICRA]AAA(SO) (Stable)	[ICRA]AAA(SO) (Stable)
3 Compulsorily convertible debenture 2	Long term	1,671	1,671	[ICRA]AAA(SO) (Stable)	[ICRA]AAA(SO) (Stable)	Provisional [ICRA]AAA(SO) (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

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
--	Non-convertible debenture	Yet to be placed	--	--	3,000	Provisional [ICRA]AAA(S) (Stable)
--	Compulsorily convertible debenture 1	July 2016	8.75%	NA	5,615	[ICRA]AAA(SO) (Stable)
--	Compulsorily convertible debenture 2	May 2017	7.6829%	NA	1,671	[ICRA]AAA(SO) (Stable)

Source: OPaL

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