

October 28, 2020

## Mangalore Refinery And Petrochemicals Limited- Update on Material Event

### Summary of Rated Instrument:

Instrument	Rated Amount	Rating Outstanding
Non-convertible Debentures	3,000.0	[ICRA]AAA (Stable)
Fund Based Limits	6,000.0	[ICRA]AAA (Stable)
Term Loans	1,371.4	[ICRA]AAA (Stable)
Non-Fund Based Limits	6,600.0	[ICRA]A1+
Commercial Paper	3,000.0	[ICRA]A1+
Issuer Rating	-	[ICRA]AAA (Stable)
<b>Total</b>	<b>19,971.4</b>	

### Material Event

On October 19, 2020, Mangalore Refinery and Petrochemicals Limited (MRPL) announced that its Board has approved the acquisition of 124.7 crore equity shares of ONGC Mangalore Petrochemicals Limited (OMPL) from Oil and Natural Gas Company Limited (ONGC) at a price of Rs 9.76/share. The indicative timeline for the completion of the acquisition is November 15, 2020 and would involve a total outgo of about Rs 1217 crore.

### Impact of the Material Event

The ratings remain unchanged at the earlier level of [ICRA]AAA (Stable)/ [ICRA]A1+ as the acquisition and eventual merger of OMPL with MRPL would provide strong synergistic benefits in the long run. Though the acquisition is expected to be funded entirely by external debt nevertheless the ratings draw comfort from the parentage of ONGC and the strong financial flexibility enjoyed by MRPL.

The ratings of Mangalore Refinery and Petrochemicals Limited (MRPL) favourably factor 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. The ratings also take into account the strong financial flexibility of MRPL due to its strong parentage besides which the company has sizeable unutilised working capital limits. The ratings also factor in the location advantage enjoyed by the company being located close to the Mangalore port as well as its diversified crude sourcing.

The sharp drop in oil prices in the month of March 2020, lead to large inventory losses for the quarter ending March 2020 and full year 2020. The company has posted a large net loss of Rs 4,041 crore in FY2020 as against a net profit of Rs 351 crore in FY2019, owing to the loss of production due to shutdowns due to water shortage and landslide in H1 FY2020, weak core GRMs and large inventory losses in Q4 FY2020. In the current fiscal though the capacity utilisation remains sub-optimal till date as demand remains muted owing to the Covid-19 pandemic, however the GRMs would be aided by some recovery in crude prices and lower fuel and loss component at lower crude oil prices. The company's profitability would remain vulnerable to the import duty differential, commodity price cycles and the INR-USD exchange rates. Further, MRPL has sizeable capex outlined in the medium to long-term to enhance refinery capacity to 25 MMTPA and set up a desalination project to safeguard its operations against water shortage. The large-scale projects would

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entail execution risks, while the timelines and funding mix would remain a rating sensitivity. The company is also exposed to asset concentration risks as its refining presence is limited to Mangalore (Karnataka).

The previous detailed rating rationale is available on the following link: [Click here](#)

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