Ratings

CRISIL
An S&P Global Company

Rating Rationale

March 29, 2018 | Mumbai

Mangalore Refinery and Petrochemicals Limited

Rating Reaffirmed

Rating Action

Corporate Credit Rating	**CCR AAA/Stable (Reaffirmed)**

1 crore = 10 million
Refer to annexure for Details of Instruments & Bank Facilities

Detailed Rationale
CRISIL has reaffirmed its corporate credit rating (CCR) 'CCR AAA/Stable' on Mangalore Refinery and Petrochemicals Limited (MRPL).

The rating continues to reflect the strong operational, financial, and managerial support from parent, Oil and Natural Gas Corporation Ltd (ONGC), and MRPL's healthy operating efficiencies in the refining business. These strengths are partially offset by the company's moderate but improving financial risk profile and exposure to risks related to volatility in crude oil prices.

Analytical Approach
The rating centrally factors in the strategic importance of the company to, and strong support from its parent, ONGC. CRISIL has taken a consolidated view of MRPL and ONGC Mangalore Petrochemicals Ltd (OMPL) (rated 'CRISIL A1+'). MRPL holds a majority stake in OMPL and both companies have operational synergies, common management control, and operate in the same line of business. MRPL increased its stake in OMPL to 51% in February 2015 from 3% as on March 31, 2014, through the acquisition of a minority stake and then subscription to the rights issue. OMPL's merger with MRPL is under process. The merger has already been approved by MRPL's board of directors and the request is under consideration by the Ministry of Petroleum and Natural Gas.

Key Rating Drivers & Detailed Description
Strengths:
* **Strong support from parent:** MRPL benefits significantly from the operational, financial, and managerial support of parent, ONGC, which owns a 71.6% stake in the company. The company is critical to ONGC's goal of becoming an integrated oil and gas entity with presence in both exploration and refining. MRPL's majority stake in OMPL increases its strategic importance to ONGC, which aims to be the leader in the oil and gas value chain.

* **Healthy operating efficiency in the refining business:** High capacity utilisation and gross refining margins (GRM) lead to a strong operating efficiency. Capacity utilisation has been 100% over the years and GRMs higher than other public sector refiners. The GRM improved considerably during fiscal 2017 to USD 7.75/barrel from USD 5.19/ BBL the previous fiscal due to inventory gains and processing of lower quality of crude. This has led to improvement in operating profitability to 11.4% from 4.3% during the period. For the nine months through December 2017, GRM was USD 7.42/barrel (USD 7.23/barrel for the nine months through December 2016).

Weakness
* **Improving though moderate financial risk profile:** Capital structure remains moderate with gearing of 1.63 times as on March 31, 2017. Improvement in operating profitability, and with exceptional items of around Rs 1,600 crores on account of foreign currency gain led to strong cash accruals at Rs 4,277 crores in fiscal 2017 (Rs 1,519 crores in fiscal 2016). Past dues of Rs 18,091 Crores have been paid off to its creditor, National Iranian Oil Company, resulting in the foreign currency gain. Debt coverage indicators are adequate with adjusted interest coverage ratio of 5.58 times and net cash accruals to debt of 28% in fiscal 2017. The company has significant debt repayments of Rs 1500-3500 crores over the next three years.

* **Exposure to risks related to volatility in crude oil prices:** MRPL imports around 80% of its crude oil requirement, which expose the company to volatility in the rupee-dollar rate, and a corresponding increase in the value of imports. Crude oil imports in India will remain high over the medium term.

Outlook: Stable
CRISIL believes MRPL will remain strategically important to, and will continue to receive operational, managerial, and financial support from, ONGC.

Downside scenario
* Any deterioration in credit risk profile of ONGC.
* Deterioration in standalone performance of MRPL.

About the Company
MRPL, a standalone refinery, is a 71.6% subsidiary of ONGC. The refinery is located near Mangalore port, on the west coast of India. In fiscal 2012, MRPL's nameplate capacity increased to 15 million tonne per annum with commissioning of the crude and vacuum distillation units of its Phase-III expansion project. OMPL's plant, commissioned in fiscal 2015, has capacity to produce around 920 kilo tonne per annum (ktpa) of paraxylene and around 280 ktpa of benzene, along with other by-products. The plant has one of the largest paraxylene manufacturing capacities in India. It will utilise feedstock (naphtha and aromatic streams) from MRPL's refinery adjacent to the plant. OMPL's entire capacity has been commissioned and utilisation is ramping up.

Key Financial Indicators (Consolidated Financials)

Particulars	Unit	2017	2016
Revenue	Rs crore	43,822	39,558
Profit after tax (PAT)	Rs crore	3,293	506
PAT margin	%	7.5	1.3
Adjusted debt/adjusted networth	Times	1.63	2.32
Interest coverage	Times	5.58	2.33

Any other information: Not applicable

Note on complexity levels of the rated instrument:
CRISIL complexity levels are assigned to various types of financial instruments. The CRISIL complexity levels are available on www.crisil.com/complexity-levels. Users are advised to refer to the CRISIL complexity levels for instruments that they consider for investment. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs. Crore)	Rating assigned with outlook
NA	NA	NA	NA	NA	NA	NA

Annexure - Rating History for last 3 Years

	Current	2018 (History)	2017	2016	2015	Start of

												2015
Instrument	Type	Quantum	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
--	CCR	0	CCR AAA/Stable		No Rating Change	20-03-17	CCR AAA/Stable		No Rating Change		No Rating Change	CCR AAA

Table reflects instances where rating is changed or freshly assigned. 'No Rating Change' implies that there was no rating change under the release.

Links to related criteria
CRISILs Approach to Financial Ratios
Rating criteria for manufaturing and service sector companies
Rating Criteria for Petrochemical Industry
Criteria for Notching up Stand Alone Ratings of Companies based on Parent Support

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