

NOVEMBER 02, 2015

CARE REAFFIRMS THE RATING ASSIGNED TO THE LONG-TERM BOND ISSUE OF CHENNAI PETROLEUM CORPORATION LIMITED

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Remarks
Long-term Bonds	1000 Rupees One Thousand crore only	CARE AAA (Triple A)	Reaffirmed

CARE has adopted its rating methodology for Manufacturing Companies for assessing Chennai Petroleum Corporation Limited.

Rating Rationale

The reaffirmation of the rating assigned to the long-term bond issue of Chennai Petroleum Corporation Limited (CPCL) is underpinned by its strong parentage [Indian Oil Corporation Limited (IOCL)] along with its strong operational linkages with IOCL which extends significant managerial support to CPCL. The rating also takes into account the strategic importance of CPCL for IOCL in South India and particularly in Tamil Nadu, with a long-standing operational track record. The rating further factors in the presence of well-qualified and diversified board of directors backed by experienced management team and demonstrated financial flexibility of CPCL with respect to raising funds at favourable terms.

The rating, however, takes note of the exposure of CPCL to the fluctuations associated with the foreign exchange rates & crude prices and the debt-funded capital expenditure programmes.

The continued ownership and operational linkage with IOCL and the ability of CPCL to improve its cash accruals and networth will be the key rating sensitivities.

Background

CPCL (CIN No.L40101TN1965GOI005389) is a 'Miniratna Central Public Sector Enterprise' and a government company (under section 617 of the Companies Act) under the administrative control of Ministry of Petroleum & Natural Gas. CPCL is a subsidiary of Indian Oil Corporation Limited (IOCL, rated 'CARE AAA', which holds 51.89% equity stake in CPCL. There are high level of operational synergies between the entities as IOCL imports the entire raw material requirements for CPCL and offtakes 80-90% of the products as well.

CPCL was established in December 1965 as a joint venture of the Government of India (GoI with 74% equity stake), Amoco Inc. of USA (Amoco with 13% stake) and National Iranian Oil Company (NIOC with 13% stake). In 1985, Amoco divested its equity holding in favour of GoI. In 2000-01, GoI sold its stake in CPCL to IOCL as part of its efforts to insulate standalone refineries from market volatility following the dismantling of the Administered Pricing Mechanism (APM). As on September 30, 2015, IOC holds 51.89% stake, Naftiran Intertrade Company Limited (Subsidiary of NIOC) holds 15.4%, rest is held by FIs and Public.

CPCL is a standalone refiner and is engaged in crude oil refining at its two units located in Tamil Nadu at Manali and Cauvery Basin, with an aggregate capacity of 11.5 million metric tonnes per annum (MMTPA). CPCL produces LPG, motor spirit, superior kerosene, aviation turbine fuel, high speed diesel, naphtha, bitumen, lube base stocks, paraffin wax, fuel oil, hexane and petrochemical feed stocks such as propylene.

During FY15, CPCL made an after tax loss of Rs.39 crore on a total operating income of Rs.41,910 crore. In Q1FY16, the company has reported profit after tax of Rs.923 crore on a total operating income of Rs.9,053 crore.

¹ Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

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****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

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In case of partnership/proprietary concerns, the rating assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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