Bharat Petroleum Corporation Limited

March 03, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Non-convertible debentures	500.00	CARE AAA; Stable	Reaffirmed
Non-convertible debentures	504.80	CARE AAA; Stable	Reaffirmed
Non-convertible debentures	2,000.00	CARE AAA; Stable	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the debt instruments of BPCL continue to derive strength from its strong parentage, the company being a Maharatna Central Public Sector Enterprise (CPSE) controlled by the Govt. of India (GoI), its high strategic importance to the GoI, and the company's strong operating profile, backed by sizeable oil refining capacity and established marketing and distribution network. The ratings also derive strength from the company's healthy financial risk profile, marked by a comfortable capital structure and debt coverage metrics along with strong liquidity.

The rating strengths are, however, tempered by the inherent vulnerability of the company's profits to the volatility in crack spreads and crude oil prices, apart from project-implementation risks due to the sizeable capital expenditure (capex) plans, as well as the increasing competition among its public sector undertaking (PSU) peers as well as from private players and the competitive industry scenario.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors- Not Applicable

Negative factors

- Dilution in the GoI's stake in BPCL to less than 50% or reduction in its strategic importance to the GoI.
- Sustained weakening of the operational performance, marked by lower throughputs and gross refining margins (GRMs).

Analytical approach: Consolidated

For arriving at the ratings, CARE Ratings has considered the consolidated financials of BPCL, owing to the financial and operational linkages as well as fungible cash flows between the parent and subsidiaries/JVs. Moreover, government notching has also been considered, owing to BPCL's parentage and strategic importance to the GoI.

Outlook: Stable

CARE Ratings believes BPCL shall continue to remain a dominant player in the oil refining and marketing business underpinning its strategic importance to GoI which should help it to maintain its strong credit profile.

Key strengths

Strong parentage and strategic importance to the GoI: BPCL is owned by the GoI (52.98% as on March 31, 2022) and is strategically important to the GoI for achieving its socio-economic goals. Oil marketing companies (OMCs) have a dominant position in the domestic market for key petroleum products such as high-speed diesel (HSD), motor spirit (MS), superior kerosene oil (SKO) and liquefied petroleum gas (LPG). OMCs serve critical policy functions for the supply of fuel throughout the country and these companies have been consistently supported by the GoI by way of absorbing a good portion of their sales-related under-recoveries through subsidies.

Sizeable refining capacity and a leading OMC: BPCL is India's second-largest OMC, with a domestic sales volume of over 42.51 million metric tonne (MMT) in FY22 (refers to the period from April 1 to March 31) and is India's third-largest refining company with a total refining capacity of 35.30 MMT (on a consolidated basis), representing a sizeable proportion in India's total

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

refining capacity. BPCL, through its subsidiary Bharat Petro Resources Limited (BPRL), has presence in the upstream exploration and production business, with ownership of 17 blocks in five countries as on December 31, 2022. With 20,729 retail outlets as on December 31, 2022 (20,063 retail outlets as on March 31, 2022), BPCL has the second-largest nationwide marketing set up in the country for the sale of petroleum products.

Strong operational profile: BPCL has three major refineries, located at Mumbai, Kochi and Bina. Its Mumbai refinery has a capacity of 12 million metric tonne per annum (MMTPA), while the one at Kochi has a capacity of 15.5 MMTPA. Bharat Oman Refineries Limited has a 7.8-MMTPA refinery at Bina in Madhya Pradesh, thereby taking the total consolidated capacity to 35.3 MMTPA and the standalone capacity to 27.5 MMTPA as on March 31, 2022. The capacity utilisation for the refineries of the company has consistently remained high, indicating strong operating efficiency. The refineries at Mumbai and Kochi are located near the coast, which provides an advantage to the company in terms of saving transportation costs. BPCL, during FY22, reported a gross refining margin (GRM) (including inventory gain) of US$ 9.66 per barrel (bbl) as compared to US$ 4.06 per bbl in FY21 and US$ 20.08 per bbl in 9MFY23. Product cracks have shown a considerable increase in recent times due to the dislocation in supplies, chiefly due to the Russia-Ukraine war.

Comfortable financial risk profile: BPCL's financial risk profile is marked by a comfortable capital structure and debt coverage metrics. On a consolidated basis, the debt-equity ratio slightly moderated, from 0.82x as on March 31, 2021 to 0.91x as on March 31, 2022, whereas the overall gearing moderated from 0.90x as on March 31, 2021 to 1.30x as on March 31, 2022. The moderation was on account of the higher debt availed in FY22 to keep up with the rising crude oil prices and the higher operational cost incurred during the year. The total debt to gross cash accruals (TD/GCA) moderated from 2.51x in FY21 to 3.62x in FY22, owing to higher debt. The interest coverage ratio, though healthy, moderated to 8.22x in FY22 from 12.52x in FY21, the reason being the sharp increase in interest cost.

Key weaknesses

Sizeable capex plans: BPCL, on a consolidated basis, intends to spend around ₹10,000 crore in FY23, of which it will spend around ₹2,100 crore on refinery and on the Petchem project in Kerala, ₹5,200 crore on marketing, ₹800 crore on CGD/GAS, ₹1,400 crore on upstream and ₹500 crore on other projects (including pipeline). The capex is planned to be funded by a mix of debt and internal accruals. The company has already completed capex of ₹9,123 crore by December 31, 2022. The timely execution of projects within the estimated costs and economic ramp-up of operations post completion of the projects will remain a key monitorable. However, this risk is mitigated to an extent due to BPCL's vast experience in successfully undertaking such large projects in the past.

Exposure to the volatility of crude prices, crack spreads, and foreign exchange rates: The crude oil prices and crack spreads are a function of many dynamic markets and fundamental factors, such as the global demand-supply dynamics, geopolitical stability in countries with oil reserves, Organization of the Petroleum Exporting Countries (OPEC) policies, foreign exchange rates, among others. These factors have translated into a high level of volatility in oil prices and cracks. The company does not hedge its inventory exposure; however, it hedges product cracks, but the hedging is around 20-30% only. Thus, the company's profitability is exposed to the volatility of crude prices and crack spreads, as well as foreign exchange fluctuations. BPCL's profitability stands impacted in 9MFY23 due to stagnant retail prices vis-à-vis high crude prices.

Industry prospects

The global oil and gas industry is at an inflection point, with governments placing greater priorities on climate change, emerging alternative sources of energy, and the likely disruption in mobility with the adoption of gas, hydrogen and electric-based transportation systems. While all these factors will impact the industry growth prospects in the long term, the immediate outlook remains brighter than in the past couple of years. Resurgent demand, restricted supplies due to production discipline, and lower capex and geopolitical tensions are expected to keep crude oil prices firm in 2023. The outbreak of COVID-19 had led to GRMs of global refiners plummeting to the lowest levels in a decade, as demand for refined products crashed, thereby impacting the crack spreads, while a significant decline in crude oil and refined products prices resulted in substantial inventory write-downs. The Singapore benchmark GRMs reduced to just US$ 3.25 per barrel in FY20 and further to US$ 1.20 per barrel in FY21, amid weak demand and high fluctuation in prices. Such low yearly GRMs were last seen in FY10. However, with the impact of the COVID-19 pandemic receding and global economies attempting to come back on the recovery path, the GRMs have rebounded meaningfully in FY22 to US$ 4.9 per barrel. With the ongoing geopolitical tensions due to the war between Ukraine and Russia and the resultant dislocation in global refining capacities, product cracks and GRMs have shot up significantly which is, though, expected to temporarily help the refiners to post higher GRMs during FY23.

Liquidity: Strong

BPCL derives strong financial flexibility, given its size and strategic importance to GoI. There is a demonstrated support from the GoI, leading to a strong fundraising ability. The company had cash and bank balance of nearly ₹8,000 crore as on March 31, 2022 and ₹2,013 crore as on December 31, 2022. Its internal accruals are expected to be more than sufficient to meet its debt repayments obligations of nearly ₹4,500 crore during FY23, with only ₹120 crore of repayments to be made in March 2023.

Environment, social and governance (ESG) risk assessment

Risk factors	Compliance and action by the company
Environmental	Renewable energy capacity was enhanced to 46.44 MW by end FY22. BPCL undertakes various steps towards energy conservation and carbon reduction. BPCL disposes its hazardous waste as per guidelines of Central Pollution Control Board. Around 12.7% of retail outlets were backed by solar power by end FY22.
Social	There was lost time due to injury during FY22. Energy efficiency and sustainability efforts of BPCL were recognized through various awards during FY22.
Governance	55% of the BPCL's board comprises of independent directors. Company has a dedicated investor grievance redressal mechanism and healthy disclosures.

Applicable criteria

Policy on default recognition
Consolidation
Factoring Linkages Government Support
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Manufacturing Companies
Policy on Withdrawal of Ratings

About the company and industry

Industry Classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Energy	Oil, Gas & Consumable Fuels	Petroleum Products	Refineries & Marketing

BPCL, a GoI undertaking (52.98% holding as on December 31, 2022) and a Fortune 500 company, was originally incorporated as Bharat-Shell Refineries Limited (BSRL) on November 03, 1952, by Shell Petroleum Company Limited, and subsequently in 1977, the name was changed to BPCL. BPCL is an integrated oil refining and marketing company. It is India's second-largest OMC, with a domestic sales volume of over 42.51 MMT and a market share of 29% in FY22. It is India's third-largest oil refining company, with a total refining capacity of 35.30 MMT (including the Bina Refinery), representing around 14.13% of India's total refining capacity. With around 20,729 retail outlets as on December 31, 2022, BPCL has the second-largest marketing set up in the country for the sale of petroleum products. BPCL, through its wholly owned subsidiary BPRL, has participating interest (PI) in 17 blocks spread across countries. Apart from stakes in 8 blocks in India, BPRL also has PI in 9 blocks in Mozambique, Brazil, Indonesia, and UAE along with equity stake in 2 Russian entities.

Brief Financials - Consolidated (₹ crore)	FY21 (A)	FY22 (A)	9MFY23 (UA)
Total operating income	230,371	349,060	356087
PBILDT	21,584	21,406	818
PAT	17,320	11,682	-4739

Overall gearing (times)	1.03	1.30	NA
Interest coverage (times)	12.52	8.22	0.29

A: Audited, UA: Unaudited; NA: Not Available; Financials are reclassified as per CARE Ratings' standards.
Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Debentures-Non Convertible Debentures		NA	NA	NA	500.00	CARE AAA; Stable
Debentures-Non Convertible Debentures		NA	NA	NA	504.80	CARE AAA; Stable
Debentures-Non Convertible Debentures		NA	NA	NA	2000.00	CARE AAA; Stable

Note: Above are proposed NCD issuances

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Debentures-Non Convertible Debentures	LT	1000.00	CARE AAA; Stable	1)CARE AAA; Stable (24-Jun-22)	1)CARE AAA (CW with Developing Implications) (25-Jun-21)	1)CARE AAA (CW with Developing Implications) (26-Jun-20)	1)CARE AAA (CW with Developing Implications) (06-Dec-19) 2)CARE AAA; Stable

								(28-Nov-19) 3)CARE AAA; Stable (27-Sep-19)
2	Debentures-Non Convertible Debentures	LT	750.00	CARE AAA; Stable	1)CARE AAA; Stable (24-Jun-22)	1)CARE AAA (CW with Developing Implications) (25-Jun-21)	1)CARE AAA (CW with Developing Implications) (26-Jun-20)	1)CARE AAA (CW with Developing Implications) (06-Dec-19) 2)CARE AAA; Stable (28-Nov-19) 3)CARE AAA; Stable (27-Sep-19)
3	Commercial Paper-Commercial Paper (Standalone)	ST	5000.00	CARE A1+	1)CARE A1+ (24-Jun-22)	1)CARE A1+ (25-Jun-21)	1)CARE A1+ (29-Jul-20) 2)CARE A1+ (26-Jun-20) 3)CARE A1+ (23-Apr-20) 4)CARE A1+ (07-Apr-20)	1)CARE A1+ (23-Mar-20) 2)CARE A1+ (06-Dec-19) 3)CARE A1+ (28-Nov-19) 4)CARE A1+ (05-Nov-19) 5)CARE A1+ (27-Sep-19)
4	Debentures-Non Convertible Debentures	LT	500.00	CARE AAA; Stable	1)CARE AAA; Stable (24-Jun-22)	1)CARE AAA (CW with Developing Implications) (21-Feb-22) 2)CARE AAA (CW with Developing Implications) (25-Jun-21)	1)CARE AAA (CW with Developing Implications) (26-Jun-20)	1)CARE AAA (CW with Developing Implications) (06-Dec-19) 2)CARE AAA; Stable (28-Nov-19) 3)CARE AAA; Stable (27-Sep-19)
5	Debentures-Non Convertible Debentures	LT	-	-	1)Withdrawn (24-Jun-22)	1)CARE AAA (CW with Developing Implications) (25-Jun-21)	1)CARE AAA (CW with Developing Implications) (26-Jun-20)	1)CARE AAA (CW with Developing Implications) (06-Dec-19) 2)CARE AAA; Stable (28-Nov-19)

								3)CARE AAA; Stable (27-Sep-19)
6	Debentures-Non Convertible Debentures	LT	1995.20	CARE AAA; Stable	1)CARE AAA; Stable (24-Jun-22)	1)CARE AAA (CW with Developing Implications) (25-Jun-21)	1)CARE AAA (CW with Developing Implications) (26-Jun-20)	-
7	Commercial Paper-Commercial Paper (Standalone)	ST	6500.00	CARE A1+	1)CARE A1+ (24-Jun-22)	1)CARE A1+ (25-Jun-21)	1)CARE A1+ (29-Jul-20) 2)CARE A1+ (26-Jun-20)	-
8	Debentures-Non Convertible Debentures	LT	504.80	CARE AAA; Stable	1)CARE AAA; Stable (24-Jun-22)	1)CARE AAA (CW with Developing Implications) (21-Feb-22) 2)CARE AAA (CW with Developing Implications) (25-Jun-21)	-	-
9	Debentures-Non Convertible Debentures	LT	2000.00	CARE AAA; Stable	1)CARE AAA; Stable (24-Jun-22)	1)CARE AAA (CW with Developing Implications) (21-Feb-22)	-	-

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: NA

Annexure-4: Complexity level of the various instruments rated

	Name of the Instrument	Complexity Level
1	Debentures-Non Convertible Debentures	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Annexure-6: List of entities whose financials have been consolidated(As on December 31, 2022)

Sr.No.	Subsidiaries, Joint Ventures and Associates
	Subsidiaries (including stepdown subsidiaries)
1	Bharat PetroResources Ltd.
2	Bharat Petro Resources JPDA Ltd.

Sr.No.	Subsidiaries, Joint Ventures and Associates
3	BPRL International BV
4	BPRL International Singapore Pte Ltd.
5	BPRL Ventures BV
6	BPRL Ventures Mozambique BV
7	BPRL Ventures Indonesia BV
8	BPRL International Ventures BV
	Joint Venture
1	Central UP Gas Ltd.
2	Sabarmati Gas Ltd.
3	Matrix Bharat Pte. Ltd.
4	Delhi Aviation Fuel Facility Private Ltd.
5	Mumbai Aviation Fuel Farm Facility Private Ltd
6	Kochi Salem Pipeline Private Ltd.
7	Haridwar Natural Gas Pvt Ltd.
8	Goa Natural Gas Pvt Ltd.
9	Ratnagiri Refinery & Petrochemicals Ltd.
10	Bharat Stars Services Private Ltd.
11	Maharashtra Natural Gas Ltd.
12	BPCL-KIAL Fuel Farm Pvt. Ltd.
13	IHB Ltd.
14	IBV (Brasil) Petroleo Ltda
15	Taas India Pte Ltd.
16	LLC TYNGD
17	Vankor India Pte Ltd.
18	Falcon Oil & Gas BV
19	Urja Bharat Pte Ltd
	Associates
1	Petronet LNG Ltd.

Sr.No.	Subsidiaries, Joint Ventures and Associates
2	GSPL India Gasnet Ltd.
3	GSPL India Transco Ltd.
4	Indraprastha Gas Ltd.
5	Kannur International Airport Limited
6	Mozambique LNG 1 Holding Co. Ltd.
7	Mozambique LNG 1 Pte Ltd.
8	Mozambique LNG 1 Financing Company Ltd.
9	Mozambique LNG 1 co. Financing, LDA
10	JSC Vankorneft (Associate of Vankor India Pte Ltd.)

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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