Oil India Limited

October 04, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	2,295.00 (Enhanced from 2,145.00)	CARE AAA; Stable (Triple A; Outlook: Stable)	Reaffirmed
Long-term / Short-term Bank Facilities	3,534.00 (Enhanced from 3,174.00)	CARE AAA; Stable / CARE A1+ (Triple A; Outlook: Stable/ A One Plus)	Reaffirmed
Short-term Bank Facilities	2,237.03 (Reduced from 6,102.03)	CARE A1+ (A One Plus)	Reaffirmed
Total Bank Facilities	**8,066.03 (Rs. Eight thousand sixty six crore and three lakh only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of the ratings assigned to the bank facilities of Oil India Limited (OIL) continues to factor in its majority ownership by the Government of India (GoI), experienced and professional management and its strategic importance in supporting the country's energy security and development of hydrocarbon reserves in the north-eastern region. The ratings further derive comfort from OIL's significant market position and a long track record in the domestic exploration and production (E&P) industry. Furthermore, the ratings also derive strength from the strong operational performance backed by robust E&P infrastructure and proven technical capabilities and its comfortable financial risk profile marked by healthy debt metrics and strong liquidity position. The ratings also take into cognizance synergies post acquisition of 54.16% stake of Numaligarh Refinery Limited (NRL) in FY21 (refers to the period April 01 to March 31) from Bharat Petroleum Corporation Limited (BPCL) leading to increased footprint of OIL in the north-east India. The ratings, however, remain susceptible to the inherent risk related to E&P business and regulatory risks and large capex requirements.

Rating Sensitivities

Negative Factors: Factors that could lead to negative rating action/ downgrade

- Sustained increase in overall gearing beyond 1x on consolidated basis
- Sustained decline in liquidity position due to decrease in free cash and bank balance along with current investment below Rs.1,000 crore on consolidated basis
- Reduction in the GoI stake to less than 51% in OIL

Detailed description of the key rating drivers

Key Rating Strengths

Strong parentage and strategic importance to GOI: OIL was established in 1889 as Burma Oil Company (BOC) with the first discovery of crude oil in Digboi (Assam). In 1981, it became a wholly-owned GoI enterprise and came out with IPO in 2009. As on June 30, 2021, GoI held 56.66% equity capital in the company, while the major oil marketing companies (viz. Indian Oil Corporation Limited, Bharat Petroleum Corporation Limited & Hindustan Petroleum Corporation Limited) jointly held 9.87% stake. OIL is the second-largest premier Indian national oil company engaged in the business of exploration, development, and production of crude oil and natural gas, transportation of crude oil, and production of LPG. It contributed 9.49% to India's total crude oil production and 8.65% to India's natural gas production during FY21. It continues to be of strategic importance in the Indian energy sector. As the largest player in north-east region, it plays a crucial role in the implementation of GoI policies in the oil & gas sector, with added presence across various segments in the oil and gas sector.

Experienced management: OIL is managed by a team having substantial experience in the oil and gas industry. Mr Sushil Chandra Mishra is the Chairman and Managing Director with an experience of over 36 years in diverse fields of strategic planning, E&P projects, corporate affairs and business development. Mr Harish Madhav, Director (Finance) is a member of the Institute of Chartered Accountants of India (ICAI) and has over 32 years of rich and varied experience in diverse fields of financial and treasury management, corporate accounts and audit. Mr Pankaj Kumar Goswami, Director (Operations), has over 31 years of experience in diverse fields of production of Oil & Gas, Geology & Drilling.

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

Significant market position with adequate reserves providing revenue visibility: OIL is the second-largest government-owned hydrocarbon exploration and production company in India. It had crude oil and natural gas domestic reserves (2P) of 73.62 million metric tonnes (MMT) and 57.11 billion cubic metres (BCM) respectively as on March 31, 2021 with exploration rights over 64 blocks in India. Furthermore, the company has been effectively replenishing more reserves by maintaining the Reserve Replacement Ratio (RRR) of 1.16 in FY21 (PY: 1.15) and the ratio has remained consistently above unity over the years. Apart from domestic reserves, OIL has 11 international projects (44,296 sq. km) spread over US, Russia, Africa (Mozambique, Gabon, Libya & Nigeria) and Bangladesh. Furthermore, OIL had crude oil and natural gas overseas reserves (2P) of 32.54 million metric tonnes (MMT) and 21.85 MMTOE (Million Metric Tonne of Oil Equivalent), respectively, as on March 31, 2021.

Robust infrastructure and proven technical capabilities: **The** oil & gas industry is a capital-intensive industry, which requires large funds and substantial time to develop a sound infrastructure. With its long track record of operations of more than six decades, the company has been able to develop a robust infrastructure and inhouse expertise providing it an advantage over newer players in the industry. OIL has developed significant onshore and offshore production facilities, subsea and land pipelines, gas processing, drilling and work-over rigs, storage facilities and other infrastructure located throughout the principal oil and gas-producing regions of India. The company has drilled twelve exploratory wells during FY21 as compared with eleven during FY20 and has also made one gas discovery in Assam. During the year, it has acquired 4 blocks in OALP Round- V increasing its acreage by 13%.

Presence across the hydrocarbon value chain: From an E&P player, OIL has gradually expanded its operations in refining and petrochemicals thereby making presence across the hydrocarbon value chain. As on March 31, 2021, in downstream operations (refining and marketing) it has 69.63% stake (80.16%, out of which 10.53% is on behalf of Government of Assam) in Numaligarh Refinery Ltd (NRL), which operates a 3MMTPA refinery which is being expanded to 9MMTPA (at an investment of Rs.22,500 crore, to be completed in the next 3-4 years) in Numaligarh (Assam) and has 10% stake in Brahmputra Cracker and Polymer Ltd (BCPL). Furthermore, the company also holds 5.16% equity in Indian Oil Corporation Ltd. In transportation segment, the company has crude transportation pipelines of over 1,157 km and multi-product pipeline of 660 km, along with ownership of 23% equity in 192km DNP Ltd which has established gas pipeline from Duliajan to Numaligarh (Assam). OIL also has renewable energy installed capacity of 188 MW (174 MW in wind power and 14 MW in solar power).

Increase in total income albeit moderation in margins: The consolidated total income of the company registered a marginal increase of around 6.5% in FY21. The total income was reported at Rs.23,943 crore in FY21 as compared with Rs.22,502 crore in the previous year. The PBILDT margin of the of the company moderated to 31.17% in FY21 as compared with 34.04% as margins remained on the lower side due to the impact of COVID-19. The PAT margin also declined 17.32% in FY21 (PY: 22.24%). In Q1FY22 (refers to the period March 31 to June 30), the company has reported a total income of Rs.6,277 crore with a PBILDT margin of 35.57%. OIL reported a net profit of Rs.1,215 crore even though the quarter was partially impacted by the second wave of COVID-19. The Numaligarh refinery, with 3 MMTPA capacity and a nelson complexity index of 9.61, reported GRM of 4.09 USD/BBL in FY21. NRL, on standalone basis, has reported a total income of Rs.13,769 crore and PAT of Rs.3,036 crore in FY21.

Comfortable financial risk profile: The company reported a comfortable overall gearing ratio of 0.80x as on March 31, 2021, as against 0.54x as on March 31, 2020. The deterioration happened on account of the additional debt taken of during the year for acquiring additional 54.16% ownership interest in Numaligarh Refinery Limited (NRL) in March 2021 for a total cash consideration of Rs.8,676 crore. Nonetheless, the interest coverage ratio also remained comfortable at 11.30x in FY21 vis-à-vis 11.84x in FY20. However, the total debt to PBILDT ratio moderated to 2.64x as on March 31, 2021 (PY: 1.71x) due to debt availed for NRL acquisition.

Key Rating Weaknesses

Risk related to E&P business and crude oil: In addition to a highly capital-intensive activity, E&P business has long gestation period. The exploration activity involves high uncertainty with respect to estimation of reserves as it is a function of the quality of the available data engineering and geological interpretation. Furthermore, the company is also exposed to the commodity price risk since the bulk of the revenue comes from the sale of crude oil. Any decrease in the price of the crude oil may hamper the profitability of the company. Prices of crude oil depend on various factors including policies by major producers of crude oil, global as well as regional demand variations, geopolitical situations and market sentiment. After a range-bound couple of years of crude price movement, the crude price (brent) has fallen sharply since early March 2020. The fall was triggered on account of a supply glut in the market by Saudi Arabia and Russia which was later aggravated on account of a decline in the demand for petroleum products due to COVID-19. However, crude prices have since recovered thereby supporting the margins of E&P players like OIL.

Large capex requirements: During the last couple of years, the average Capex of OIL (standalone) per annum has been in the range of Rs.4,000 crore. The same trend is expected to continue in the ensuing years distributed between expenditure on development drilling, exploration drilling, capital equipment, overseas project, surveys and R&D. The large capex requirements and long gestation periods of E&P projects have a bearing on the company's return indicators although it has a sound financial position to fund its capex requirements. The company is also implementing capacity expansion of Numaligarh Refinery from 3 to 9 MMTPA at an investment of Rs.22,500 crore, to be completed in the next 3-4 years. The project will be funded 70% by debt and remaining by internal accruals and equity infusion.

Regulatory risk: The GoI's policy and decisions with respect to natural gas pricing (APM Mechanism), subsidy sharing, and dividend payments have a significant bearing on OIL's profitability, cash flows and liquidity position. During elevated prices of crude, the GoI may choose to pass on the fiscal burden via sharing of profits of PSUs through higher fiscal levies, higher dividend declaration or providing discounts to OMCs which may impact the income and accruals.

Liquidity: Strong
OIL's liquidity remains strong as it derives financial flexibility from its GoI parentage. It is further strengthened by projected GCA of over Rs.7,000 crore in FY22. There is no LT debt repayment in FY22 but only the Rs.4,300 crore repayment of the STL, out of which Rs.3,165 crore has already been paid as on September 28, 2021. The free cash and cash equivalents stood at Rs.966 crore as on June 30, 2021. The current ratio of the company remained low at 1.01x as on March 31, 2021. OIL subsidiary NRL has planned capacity expansion which will be finalized in the next 4-5 years and will required a capex of around Rs.5,200 crore in FY22 to be funded 70% by debt.

Analytical approach: Consolidated while factoring on linkages with the Government of India. The analytical approach has been changed from standalone to consolidated after acquisition of NRL in FY21.

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

About the Company
OIL was established as Burma Oil Company (BOC), with first discovery of crude oil in Digboi (Assam) in 1889. 'Oil India Private Ltd' was incorporated on February 18, 1959 and later became 50:50 joint venture (JV) among BOC and GoI. In 1981, it became a wholly-owned GoI enterprise and came out with an IPO in 2009. OIL, a Navratna PSU, is engaged in exploration, development and production of crude oil and natural gas, transportation of crude oil and production of LPG. OIL also provides various E&P-related services and holds 80.16% equity in Numaligarh Refinery Ltd (NRL) which is operating a 3 million metric tonnes per annum (MMTPA) refinery at Numaligarh (Assam).

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)
Total operating income	22,502	23,943
PBILDT	7,659	7,463
PAT	5,005	4,146
Overall gearing (times)	0.54	0.80
Interest coverage (times)	11.84	11.3

A: Audited
Based on CARE Ratings' calculations

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument/ facility: Not Applicable

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

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	295.00	CARE AAA; Stable
Non-fund-based - ST-BG/LC		-	-	-	400.00	CARE A1+
Non-fund-based - ST-Bank Guarantees		-	-	-	702.03	CARE A1+
Non-fund-based - LT/ ST-Bank Guarantees		-	-	-	3534.00	CARE AAA; Stable / CARE A1+
Fund-based - LT-Term Loan		-	-	-	2000.00	CARE AAA; Stable
Fund-based - ST-Term loan		-	-	-	1135.00	CARE A1+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Cash Credit	LT	295.00	CARE AAA; Stable	-	1)CARE AAA; Stable (26-Mar-21)2)CARE AAA; Stable (11-Feb-21)	1)CARE AAA; Stable (07-Feb-20)	1)CARE AAA; Stable (05-Oct-18)2)CARE AAA; Stable (09-Apr-18)
2	Non-fund-based - ST-BG/LC	ST	400.00	CARE A1+	-	1)CARE A1+ (26-Mar-21)2)CARE A1+ (11-Feb-21)	1)CARE A1+ (07-Feb-20)	1)CARE A1+ (05-Oct-18)2)CARE A1+ (09-Apr-18)
3	Non-fund-based - ST-Bank Guarantees	ST	702.03	CARE A1+	-	1)CARE A1+ (26-Mar-21)2)CARE A1+ (11-Feb-21)	1)CARE A1+ (07-Feb-20)	1)CARE A1+ (05-Oct-18)2)CARE A1+ (09-Apr-18)
4	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST*	3534.00	CARE AAA; Stable / CARE A1+	-	1)CARE AAA; Stable / CARE A1+ (26-Mar-21)2)CARE AAA; Stable / CARE A1+ (11-Feb-21)	1)CARE AAA; Stable / CARE A1+ (07-Feb-20)	1)CARE AAA; Stable / CARE A1+ (05-Oct-18)2)CARE AAA; Stable / CARE A1+ (09-Apr-18)
5	Fund-based - LT-Term Loan	LT	2000.00	CARE AAA; Stable	-	1)CARE AAA; Stable (26-Mar-21)	-	-
6	Fund-based - ST-Term loan	ST	1135.00	CARE A1+	-	1)CARE A1+ (26-Mar-21)	-	-

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

Annexure 4: Complexity level of various instruments rated for this Company

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Cash Credit	Simple
2	Non-fund-based - LT/ ST-Bank Guarantees	Simple
3	Non-fund-based - ST-Bank Guarantees	Simple
4	Non-fund-based - ST-BG/LC	Simple

Note on complexity levels of the rated instrument: *CARE Ratings has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

Contact us

Media Contact
Mradul Mishra
Contact no. – 91-22-6837 4424
Email ID – mradul.mishra@careratings.com

Analyst Contact
Jasmeen Kaur
Contact no.: 011-45333235
Email ID: jasmeen.kaur@careratings.com

Relationship Contact
Swati Agrawal
Contact no.: 011-45333200
Email ID: swati.agrawal@careratings.com

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