Chennai Petroleum Corporation Limited

October 04, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	360.00	CARE AAA; Stable (Triple A; Outlook: Stable)	Reaffirmed
Total Bank Facilities	**360.00 (Rs. Three Hundred Sixty Crore Only)**		
Non-Convertible Debentures	1,145.00	CARE AAA; Stable (Triple A; Outlook: Stable)	Reaffirmed
Total Long-Term Instruments	**1,145.00 (Rs. One Thousand One Hundred Forty-Five Crore Only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of the ratings assigned to the bank facilities and non-convertible debentures (NCDs) of Chennai Petroleum Corporation Limited (CPCL) continues to derive strength from the strong operational, managerial and financial linkages of the company with its parent company, Indian Oil Corporation Limited (IOCL, India's largest refining and oil marketing company). CPCL is the only refinery for the IOCL group in south India and the company enjoys operational synergies with respect to procurement of crude and bulk product off-take by IOCL. Besides this, IOCL provides significant managerial support to CPCL and the latter also enjoys substantial financial flexibility with respect to raising funds from banks and capital markets at favorable terms. The ratings also take cognizance of the improvement in profitability of the company in FY21 (refers to the period April 01 to March 31) owing to recovery in gross refining margin (GRMs). The ratings, however, take note of the company's weak financial risk profile marked by high gearing and susceptibility of its margins to the fluctuations associated with the crude oil prices.

Rating Sensitivities

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

- Any significant changes in operational linkages with IOCL or decline in IOCL's shareholding below 51%
- Continued weak operating performance or higher-than-expected debt-funded capital expenditure plans leading to a pressure on the capital structure

Detailed description of the key rating drivers

Key rating strengths

Strong parentage and dominant position of IOCL: IOCL is a Maharatna PSU and the largest oil refining and marketing PSU of India. As on June 30, 2021, Government of India (GoI) held 51.50% equity stake in IOCL. As on March 31, 2021, IOCL, along with its subsidiaries including CPCL, owns and operates ten refineries in India (i.e., around 33% of domestic refining capacity) with refining capacity is 80.55 million metric tonnes per annum (MMTPA). In FY21, IOCL reported a total income of Rs.367,449 crore (net of excise) and net profit of Rs.21,762 crore on consolidated level.

IOCL holds 51.89% stake in IOCL, while Naftiran Intertrade Company Limited (Swiss-based subsidiary of National Iranian Oil Company) held 15.40%, and the rest is controlled by FIs and Public.

Strong linkages with IOCL: Being a subsidiary of IOCL, CPCL operates under the administrative control of the Ministry of Petroleum and Natural Gas and IOCL. The business goals and targets of CPCL are determined in consultation with IOCL by the board of directors of CPCL as per the guidelines issued by Department of Public Enterprises (DPE). CPCL derives operational, managerial and financial support from IOCL such as key decision making and approval, import of entire raw materials, off-take of finished products, IT & systems, R&D and functional support. CPCL also derives financial support by way of payables period from IOCL and investments from IOCL.

Experienced & professional management team: The board of directors of CPCL includes a mix of independent directors and representatives from the IOCL, GoI and Naftiran. The chairman of CPCL and IOCL, Mr S.M Vaidya has over 34 years of extensive experience in refining and petrochemicals operations. The managing director, Mr Arvind Kumar, has more than three decades of experience in the areas of engineering, project management, materials & contract management and in plant operations and maintenance.

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

Strategic importance of CPCL: CPCL is of strategic importance to IOCL as the only refinery which caters to IOCL's product requirements in south India. The main product of CPCL is motor spirit and high-speed diesel. The refineries of CPCL are capable of processing both soft crude and hard crude. CPCL accounts for around 21% of the installed refining capacities (operational) in south India. Furthermore, crude supply position to CPCL is well secured as IOCL does the entire import on behalf of CPCL. CPCL in turn processes and sells the finished product to IOCL.

Flexibility with regards to raising funds at favorable terms
Being a government entity and part of IOCL, CPCL enjoys high financial flexibility in terms of raising funds at favorable terms. The utilization of working capital facilities has been low as CPCL resorts to placing commercial paper at competitive rates. CPCL also raised preference share capital of Rs.1,000 crore from IOCL of which Rs.500 crore was redeemed in FY19.

Recovery in GRMs and profitability
The total income of the company registered a downfall of around 40% in FY21 as compared with FY20 on account of lower demand in the COVID-19 impacted first half of FY21 and was reported at Rs.22,482 crore. The PBILDT margin of the company, however, registered a significant improvement owing to the inventory gains regitsered in FY21 as against inventory losses in the previous year. Hence, the PBILDT margin was reported at 9.35% as compared with negative 5.72% the previous year as GRM improved to 7.14 USD/BBL in FY21 against negative GRM of 1.18 USD/BBL in FY20. CPCL also reported a net profit for first time in last 3 years at Rs.238 crore in FY21 (PY: Net loss of Rs.2,078 crore). In Q1FY22, the company has registered a total income of Rs.8,168 crore with GRM reported at 5.68 USD/BBL.

Key rating weakness
Weak financial risk profile: The overall gearing of the company, although still high, improved marginally and was reported at 6.65x as on March 31, 2021 (PY: 7.43x) as net worth increased due to accretion of profits to reserve, which depleted in the past two years owing to losses reported both at operating and net levels. The interest coverage ratio also improved with higher profitability in FY21 and was registered at 5.58x. The total debt to PBILDT of CPCL also improved to 4.36x as on March 31, 2021 (PY: NM). However, the company has demonstrated strong resource raising capabilities thereby mitigating the risks related to weaker financial risk profile, to a large extent.

Exposure to volatility in crude prices and forex rates: Refinery players are known to be price takers as they have no control over the two key drivers which are the price of crude and the price of refined products. CPCL imports majority of its raw material requirements (crude) from West Africa or the Middle East Crude through IOCL and is exposed to volatility in crude prices and the forex rates. The pricing of the final products is also based on trade parity basis. With the company holding inventories as well, volatility in prices of crude which depends on various factors including policies by major producers of crude oil, demand variations, geopolitical situations and market sentiment, affect the GRMs and profitability margins.

Update on capex activities: CPCL has completed the project of increasing its capacity of the existing diesel hydro-treating (DHDT) unit to from 1.8 to 2.4 MMTPA along with a new Sulphur Recovery Unit. CPCL is also in the final stages of completion of Re-gassified LNG project. A 9 MMTPA capacity refinery at Cauvery Basin Refinery is being planned to be set-up under a joint venture (JV) with IOCL wherein 50% will be jointly held by IOCL and CPCL and the remaining 50% by strategic investors. The project has now received approval from the NITI Aayog. CPCL's investment for the project is estimated at around Rs.2,570 crore to be incurred over a period of 4 years.

Liquidity: Strong
CPCL's liquidity strength is derived from being a government entity and part of IOCL which allows the company to enjoy high financial flexibility in terms of raising funds at favorable terms. In FY22, the projected GCA of CPCL is sufficient against repayment of Rs.498 crore. Furthermore, the company has working capital facilities of around Rs.4,000 crore out of which around Rs.2,400 crore remained utilized as on June 30, 2021. CPCL also places debentures at fixed rates to fund its operating and capex requirements and to repay high cost debt. Capex for FY22 stands at around Rs.350 crore which pertains to regular maintenance capex and finalizing of previously ongoing projects funded by term loans and internal accruals.

Analytical approach: Standalone after factoring in strong operational, managerial and financial linkages with IOCL.

Applicable Criteria
Policy on default recognition
Factoring Linkages Parent Sub JV Group
Financial Ratios – Non-financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch

[Policy on default recognition](#)
[Factoring Linkages Parent Sub JV Group](#)
[Manufacturing Companies](#)

About the Company
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 Government of India (GoI). In 2000-01, GoI sold its stake in CPCL to Indian Oil Corporation Limited (IOCL) as part of its efforts to insulate stand-alone refineries from market volatility following the dismantling of the Administered Pricing Mechanism (APM). As on September 30, 2021, IOCL holds 51.89% stake, Naftiran Intertrade Company Ltd (Swiss-based subsidiary of NIOC) holds 15.4%, rest is held by FIs and Public.
CPCL is a standalone refiner and is engaged in crude refining at its two units located in Tamil Nadu at Manali (10.5 metric tonnes per annum (MMTPA)) and Cauvery Basin (1.0 MMTPA), with an aggregate capacity of 11.5 MMTPA. Consequent to the implementation of BS- IV specifications on a pan India basis w.e.f April 01, 2017, and in the absence of secondary treatment facilities, the BS – III grade of diesel production from the refinery at Cauvery Basin have not be marketable in the local market and the operations of the refinery at Nagapattinam have been stopped from April 01, 2019.
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.

Rs. Crore

Brief Financials (Rs. crore)	FY20 (A)	FY21(A)
Total operating income	37,138	22,482
PBILDT	-2,124	2,102
PAT	-2,078	238
Overall gearing (times)	7.43	6.65
Interest coverage (times)	NM	5.58

A: Audited; NM: Not Meaningful

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-Term Loan		-	-	Dec 2021	360.00	CARE AAA; Stable
Debentures-Non Convertible Debentures	INE178A08011	February 28, 2020	6.43%	Feb 28, 2023	1145.00	CARE AAA; Stable

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	Bonds	LT	-	-	-	-	-	1)Withdrawn (06-Feb-19)
2	Fund-based - LT-Term Loan	LT	360.00	CARE AAA; Stable	-	1)CARE AAA; Stable (07-Dec-20)	1)CARE AAA; Stable (20-Nov-19)2)CARE AAA; Stable (10-Apr-19)	-
3	Debentures-Non Convertible Debentures	LT	1145.00	CARE AAA; Stable	-	1)CARE AAA; Stable (07-Dec-20)	1)CARE AAA; Stable (31-Jan-20)	-

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	Debentures-Non-Convertible Debentures	Simple
2	Fund-based - LT-Term Loan	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.*

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