Chennai Petroleum Corporation Limited

September 20, 2022

Rating

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	-	-	Withdrawn
Total bank facilities	**0.00 (₹ Only)**		
Non-convertible debentures	1,145.00	CARE AAA; Stable (Triple A; Outlook: Stable)	Reaffirmed
Total long-term instruments	**1,145.00 (₹ One thousand one hundred forty-five crore only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The reaffirmation of the ratings assigned to non-convertible debentures (NCDs) of Chennai Petroleum Corporation Limited (CPCL) continues to derive strength from 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 favourable terms. The ratings also take cognisance of the improvement in profitability of the company over the last couple of quarters owing to higher crack spreads and gross refining margins (GRMs). The ratings, however, take note of the company's moderate financial risk profile and susceptibility of its margins to the fluctuations associated with the crude oil prices and GRMs.

Furthermore, the ratings for the long-term bank facilities have been withdrawn upon full repayment of the term loans rated by CARE Ratings Limited (CARE Ratings) and receipt of 'no dues certificate' from the bank stating there is no outstanding against the said facility.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade: NA

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%.
- Significant and sustained weakening of operating performance or higher-than-expected debt-funded capital expenditure leading to a pressure on the capital structure.

Detailed description of the key rating drivers

Key rating strengths

Strong parentage: IOCL is a Maharatna PSU and the largest oil refining and marketing PSU of India. As on June 30, 2022, Government of India (GoI) held 51.50% equity stake in IOCL. As on March 31, 2022, IOCL, along with its subsidiaries including CPCL, own and operate ten refineries in India (i.e., around 33% of the domestic refining capacity) with a refining capacity of 80.55 million metric tonnes per annum (MMTPA). In FY22, IOCL reported a total income of ₹ 7,39,813 crore (net of excise) and net profit of ₹ 25,727 crore on consolidated level. IOCL holds 51.89% stake in CPCL, 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.

Strategic importance of CPCL to IOCL: CPCL is of strategic importance to IOCL as it is 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 23% 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.

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

Flexibility with regards to raising funds at favourable terms: Being a government entity and part of IOCL, CPCL enjoys high financial flexibility in terms of raising funds at favourable terms. The utilisation of working capital facilities has been moderate as CPCL resorts to placing commercial paper at competitive rates. CPCL also raised preference share capital of ₹1,000 crore from IOCL of which ₹500 crore was redeemed in FY19. As on March 31, 2022 ₹636 crore of preference share are outstanding.

Improving GRM: The GRM of CPCL improved from US$7.14/bbl in FY21 to US$8.85/ bbl in FY22 which is attributable to the higher crack spreads and inventory gain registered during the year with sharp increase in crude prices during the year. CPCL's GRMs are traditionally lower as given the vintage of the refinery, the fuel loss is on the higher side keeping the distillate yield (DY) on the lower side. However, in FY22, higher inventory gains due to jump in crude oil prices resulted in higher GRM. Although the company reported robust GRMs of US$25.04/bbl in Q1FY23 amidst higher cracks and inventory gains, it is expected that GRMs shall moderate significantly to low single digits in residual period of FY23 due to moderation in crack spreads and windfall taxes imposed on refined products.

Growth in total income and better profitability: The total income of the company registered an improvement of around 93% in FY22 on account of higher crude prices, better capacity utilisations and higher GRMs in FY22. CPCL has reported TOI of ₹43,368 cr in FY22 compared with ₹22,455 cr in FY21. The PBILDT margin of the company is dependent on product cracks in the international market. The product cracks were low in the first half of FY22 which gradually improved during the second half and were robust in Q4FY22. The PBILDT margin was reported at 6.29% as compared to 9.24% in the previous year. In Q1FY23, the company has registered a total operating income of ₹27,453 crore with GRM reported at US$25.04/bbl.

Experienced and professional management team: The board of directors of CPCL includes a mix of independent directors and representatives from IOCL, GoI and Naftiran. The chairman and managing director of CPCL and IOCL, S.M Vaidya, has over 35 years of extensive experience in refining and petrochemicals operations. The directors of the management are assisted by a team of professionals who are highly experienced in their respective domains.

Liquidity: Strong

CPCL's liquidity strength is derived by being a government entity and part of IOCL, enjoying high financial flexibility in terms of raising funds at favourable terms. In FY23, the cash accruals of CPCL are envisaged at ₹2,685 crore as against debt repayment obligations of ₹1,195 crore. Furthermore, out of the company's working capital facilities of around ₹11,500 crore around ₹2,500 crore remain undrawn as on June 30, 2022. Capex for FY23 barring the investment in JV, would mainly be for regular maintenance and for finalising of the previously ongoing projects.

Key rating weaknesses

Modest financial risk profile despite improvement: The overall gearing of the company improved and was reported at 3.36x as on March 31, 2022 (PY: 6.65x) owing to increase in net worth due to accretion of profits to reserve and repayment of term debts. The PBILDT interest coverage ratio also reported improvement with lower debt due to repayments and was registered at 6.60x (PY: 5.51x). The total debt to PBILDT of CPCL also improved to 3.39x as on March 31, 2022 (PY: 4.42x). However, the company has demonstrated strong resource raising capabilities thereby mitigating the risks related to modest 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 situation and market sentiment, affect the GRMs and profitability margins.

Update on capex activities: 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 ₹2,570 crore to be incurred over a period of four years. The project is expected to be completed by June 2025. Additionally, CPCL envisages to set up production of pharma-grade Hexane in the isomerisation unit. The estimated cost of the project is expected to be ₹43.53 crore and the project is expected to be completed by July 2023. As on May 31, 2022, 35.1% of the project has been completed.

Analytical approach: Standalone along with factoring in the 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
Manufacturing Companies
Policy on Withdrawal of Ratings

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 GoI. In 2000-01, GoI sold its stake in CPCL to 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 June 30, 2022, IOCL holds 51.89% stake, Naftiran Intertrade Company Ltd (Swiss-based subsidiary of NIOC) holds 15.40%, and the 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 has not been 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.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	Q1FY23 (UA)
Total operating income	22,455	43,368	27453
PBILDT	2,075	2,729	3408
PAT	238	1,342	2359
Overall gearing (times)	6.65	3.36	NA
Interest coverage (times)	5.51	6.60	44.84

A: Audited; UA: Unaudited; NA: Not available

Status of non-cooperation with previous CRA: NA

Any other information: NA

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

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term loan		-	-	-	0.00	Withdrawn
Debentures-Non-convertible debentures	INE178A08011	February 28, 2020	6.43%	Feb 28, 2023	1145.00	CARE AAA; Stable

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	Fund-based - LT-Term loan	LT	-	-	-	1)CARE AAA; Stable (04-Oct-21)	1)CARE AAA; Stable (07-Dec-20)	1)CARE AAA; Stable (20-Nov-19) 2)CARE AAA; Stable (10-Apr-19)
2	Debentures-Non convertible debentures	LT	1,145.00	CARE AAA; Stable	-	1)CARE AAA; Stable (04-Oct-21)	1)CARE AAA; Stable (07-Dec-20)	1)CARE AAA; Stable (31-Jan-20)

*Long term/Short term.

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

Name of the Instrument	Detailed Explanation
A. Financial covenants	**NA**
I.	
B. Non-financial covenants	**NA**
I.	

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

Annexure-5: Bank lender details for this company

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

Note on complexity levels of the rated instruments: CARE Ratings Limited (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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