

Cauvery Basin Refinery and Petrochemicals Limited

September 13, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities	29,899.00 (Enhanced from 25,184.00)	CARE AA; Stable	Reaffirmed

Details of facilities in Annexure-1.

Rationale and key rating drivers

The rating assigned to Cauvery Basin Refinery and Petrochemicals Limited (CBRPL) continues to derive strength from its strong and resourceful parentage, being a joint venture (JV) of Indian Oil Corporation Limited (IOCL) and Chennai Petroleum Corporation Limited (CPCL; 51.89% subsidiary of IOCL) respectively having established presence in oil refining and marketing segment. The rating also draws comfort from strong operational, financial and managerial linkages with IOCL, strong revenue visibility owing to proposed off-take agreement for procurement of all products of CBRPL by IOCL and state government support in the form of fiscal incentive package for the project. The rating also factors availability of majority land, strategically important location of the project, receipt of major statutory approvals required for the project and favourable demand prospects for petroleum and petrochemical products.

The rating also takes cognisance of revision in shareholding pattern, where IOCL and CPCL shall now directly hold 75% and 25% equity stake respectively against earlier planned shareholding of 25% each by IOCL and CPCL and 50% by external private equity investors. There has been a change in total project cost, which has increased marginally to ₹38,830 crore from earlier estimate of ₹37,776 crore while debt to equity ratio has been revised marginally to 2.33:1 from earlier envisaged 2:1 and scheduled commercial operations date (SCOD) has also now been revised to April 01, 2029, from the earlier envisaged July 01, 2027. The company is currently at an advanced stage of debt tie up.

The strengths are partially offset by inherent risks associated with a large-size partially debt-funded project, which is currently at a nascent stage and inherent risks associated with the refinery business.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors:

- Completion of the entire project ahead of expected schedule and within budgeted cost.
- Post completion, stabilisation of plant operations resulting in achievement of envisaged gross refining margins (GRMs) and profitability.

Negative factors:

- Significant delay in commissioning of the project and / or significant escalation in the project cost.
- Deterioration in the credit profile of sponsors along-with weakening of linkages with them.

Analytical approach: Standalone. Furthermore, the rating is notched-up for strong management, financial and operational linkages with IOCL, which shall largely off-take entire production of CBRPL.

Outlook: Stable

The 'Stable' outlook on the rating reflects that the rated entity is likely to benefit from being part of the IOCL group and considering strategic importance of CBRPL, there would be timely and need-based support from IOCL during the project implementation and stabilisation phase.

Detailed description of key rating drivers

Key strengths

Strong and resourceful parentage of CBRPL

The company is part of the IOCL group and IOCL is a leading 'Maharatna' public sector oil company and CPCL, a subsidiary of IOCL, is a Schedule A, public sector oil company. CBRPL derives significant comfort from the resourcefulness, financial strength and flexibility of its promoters. By virtue of change in shareholding pattern, IOCL will now hold 75% equity stake and CPCL would hold 25% equity stake in CBRPL.

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

IOCL is the largest oil refining and marketing company in India. On a consolidated basis, IOCL owns and operates 11 refineries across India, with a combined capacity of 80.75 million metric tonne per annum (MMTPA) as on March 31, 2024, which accounts for ~31.44% of the country's total refining capacity. The company accounted for ~42.44% of the total petroleum products sold within the country in FY24. Apart from refineries, IOCL has 37,472 retail outlets (42% market share) and pipeline length of over 19,744 km (53% share in crude and product pipeline in length). IOCL has strong credit profile and strong financial flexibility, being a 51.50% Government of India-owned entity. The company had cash and liquid investments of around ₹13,556 crore as on March 31, 2024.

Strong operational, financial and managerial linkages with IOCL

CBRPL's refinery is of strategic importance to IOCL, as it would cater to demand of the southern region and being situated at the coast, shall improve IOCL's diversification from the perspective of land locked against coastal presence. Accordingly, IOCL has proposed to sign a product off-take agreement with CBRPL for a period covering the tenor of the loan, for all products to be produced by the refinery. Prior to disbursement of term debt, sponsor support undertaking is also expected to be executed, where sponsors shall jointly undertake that IOCL shall hold at least 51% of the equity share capital of the borrower during the currency of facility and shall also be liable to fund any project cost overrun in the ratio of their shareholding. The operations of CBRPL will be primarily overlooked by IOCL's management team. Currently, of the six directors on board, four are from the IOCL group. The Chairman of the Board shall always be appointed by the Board from among the Directors nominated by IOCL.

Availability of majority of land and major statutory approvals already in place

CBRPL is expected to benefit from the existing land of CPCL as the project is being implemented at the location of existing 1 MMTPA refinery of CPCL in Tamil Nadu by dismantling the existing refinery unit. CBRPL will benefit from the land in possession of CPCL and coastal location of existing facility for crude import and product evacuation through nearby port facility apart from proximity to highways.

Of the required land of 1,442 acres for the project, the company has already acquired 1391 acres (~96% of land requirement). Balance land is expected to be acquired in the near term. Government order (GO) has been issued for private land and for small portion of Govt land, acquisition is in advance stage.

The company received Tamil Nadu State-level Coastal Regulation Zone Clearance from Tamil Nadu Government on March 21, 2020, and Environmental clearance from Ministry of Environment, Forest and Climate Change on October 13, 2020. It has also received Consent To Establish (CTE) from Tamil Nadu Pollution Control Board (TNPCB) on February 17, 2021. Accordingly, majority critical approvals / clearances are already in place.

Strong revenue visibility owing to proposed off-take agreement to be executed by IOCL

IOCL will enter into a long-term off-take agreement covering the tenor of the loan with the company to provide assured off-take for all products produced by the refinery at arm's length pricing. Hence, CBRPL is expected to have no saleability risk and strong revenue visibility post commencement of operations. Liquid products will be evacuated through Karaikal port (33% of the liquid products), IOCL's pipeline (62% of the liquid products) and balance by road (5% of the liquid products). Solid products will be evacuated through trucks by road to the designated location.

State government supports in the form of structured package of incentives for the project

Considering the economic benefit that will accrue to the state because of this project, the state government has provided a fiscal incentive package for first 15 years from Commercial Operations Date (COD), which includes reimbursement of ineligible SGST/SGST portion of IGST on project execution activities, ineligible SGST/SGST portion of IGST on operational expenditure, SGST on Petchem products and CST on interstate sales of petroleum products in the form of Investment Promotion Subsidy (IPS), and exemption of tax on electricity consumption for five years from COD.

The cumulative benefit that will accrue to the company from this package is estimated at ~₹12,839 crore over 15 years post commissioning of operations.

Favourable demand prospects for petroleum and petrochemical products

In FY24, India's oil refining companies processed 261.55 million metric tonnes (MMT) of crude oil, surpassing their aggregate installed capacity of 256.82 MMT as on March 31, 2024 (against last year's processing of 255.23 MMT on a capacity of 253.92 MMT as on March 31, 2023). The total consumption of petroleum products stood at 233.28 MMTPA during FY24 (FY23:223.01 MMTPA) registering a growth of ~5% on y-o-y basis. India is a net exporter of petroleum products. Major export markets for India include the USA, Western Europe, Singapore, and Japan, which are net importers of petroleum products. Considering capacity additions, export availability is expected to increase for India. Stagnant or declining refining capacity in the US and Europe, in view of stringent environmental norms, increased their reliance on imports from developing markets. Indian refiners

have competitive advantage considering lower capital and operational costs and proactive government policies, which help boosting investment in the Indian refining sector.

Petrochemical production accounts for nearly 14% and 8% of the global demand for oil and gas, respectively. The share of petrochemical production is expected to increase to ~30% with evolution of new technologies, especially in crude to chemicals. The government is taking all the necessary steps to make India as a global petrochemical manufacturing hub. Some of the initiatives taken include revised custom duties on petrochemicals, reduction in basic custom duty of naphtha and a new addition of Barmer Petrochemical Cluster.

Liquidity: Strong

CBRPL's liquidity is underpinned by access to timely need-based support from its parent-IOCL, which has a track record of support to its group companies. Of the planned equity infusion, ~25% of the equity is expected to be infused upfront by the sponsors. It has strong revenue visibility post commencement of project considering the off-take agreement from IOCL for 100% of its products. Currently, the project cost has been funded through equity infused by CPCL. The debt for the project is yet to be tied-up. The company is in the process of tie up of debt and accordingly have sought offers from banks and financial institutions during August 2024 considering the revised project cost. The company during last year had received debt tie up offers from number of lenders, which cumulatively was ~3x the size of its debt requirement.

Project cost includes interest during construction and has contingency provision which should take care of any increase in the estimated construction and commodity cost. In addition to rupee term debt of ₹27,181 crore, a standby credit facility of upto 10% of the facility, ₹2,718 crore is proposed to be tied up for part financing in case of increase of project cost by 10%, with extant DER 2.33:1.

The project SCOD is April 01, 2029, where debt repayments are expected to begin after a moratorium of two years entailing sufficient cushion for the company.

Key weaknesses

Inherent risks associated with a large size project which is currently at a very nascent stage

Of the total revised envisaged project cost of around ₹38,830 crore for 9 MMTPA refinery, as on July 30, 2024, ₹1,197 crore has been spent on project; entirely funded through equity contribution by CPCL. The debt tie-up of ₹27,181 crore is in advanced stage and is proposed to be drawn down only from FY26 onwards. Debt is expected to have a door-to-door tenure of 19.75 years including drawdown period of 3.75 years, moratorium period of 2 years and structured repayments over 14 years. As on June 30, 2024, the company has already awarded contracts worth ₹3,497 crore. Around 56% of the core project cost has already been discovered by CBRPL. The company is likely to award majority of contracts by Q3FY25 end.

The project is expected to achieve COD by April 01, 2029, and accordingly, the project is currently at a very nascent stage and hence exposed to implementation related risks. Timely completion of the project within envisaged cost and time shall be a key monitorable. Long-standing experience of the IOCL group in setting up large size of refinery projects mitigates project risks to an extent.

Inherent risks associated with refinery business

Although there would be an off-take agreement with IOCL, CBRPL would be exposed to the inherent volatility associated with crude refining business. Crude oil prices and crack spreads are a function of many dynamic markets and fundamental factors, such as 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 to a high-level of volatility in oil prices and cracks. Thus, the company's profitability would be exposed to volatility in crude prices and crack spreads, and foreign exchange fluctuations.

Applicable criteria

[Definition of Default](#)

[Factoring Linkages Parent Sub JV Group](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Rating Watch](#)

[Financial Ratios – Non financial Sector](#)

[Project stage companies](#)

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic Industry
Energy	Oil, Gas & Consumable Fuels	Petroleum Products	Refineries & Marketing

Incorporated in January 2023, CBRPL is a JV company of IOCL; holding 25% stake and CPCL; holding 25% stake. Balance 50% equity stake, at present, is held by Seed Equity Investors. Pursuant to the revised shareholding structure, IOCL shall hold 75% equity stake, while CPCL shall hold balance 25% equity stake in CBRPL.

CBRPL has taken up a greenfield project to set up a grass root refinery of 9 MMTPA capacity including 0.55 MMTPA Polypropylene capacity at Nagapattinam, Tamil Nadu at a total project cost of ₹38,830 crore (revised from ₹37,776 crore), which is planned to be funded in debt toequity ratio of 2.33:1 (as against earlier envisaged debt to equity ratio of 2:1). Currently, the project is at a nascent stage and majority capex is expected to be incurred from FY26 onwards. The debt tie-up is in advanced stage and the debt is expected to be drawn down from FY26 onwards. The project SCOD has been revised from July 01, 2027, to April 01, 2029.

Brief financials: Not applicable, as it is a project phase entity.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Fund-based - LT-Term Loan		-	-	Proposed	29,899.00	CARE AA; Stable

Annexure-2: Rating history for 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 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Fund-based - LT-Term Loan	LT	29,899.00	CARE AA; Stable	-	1)CARE AA; Stable (21-Jul-23)	-	-

LT: Long term

Annexure-3: Detailed explanation of covenants of rated instruments / facilities: Not applicable

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Term Loan	Simple

Annexure-5: Lender details

To view the lender-wise details of bank facilities please [click here](#)

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

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