Indian Oil Corporation Limited

October 07, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term / Short Term Bank Facilities	13,283.00	CARE AAA; Stable / CARE A1+	Assigned
Short Term Bank Facilities	44,467.00	CARE A1+	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of Indian Oil Corporation Limited (IOCL) derive strength from its strong parentage being a Maharatna Central Public Sector Enterprise (CPSE) controlled by the Government of India (GoI) and its high strategic importance to the GoI.

Ratings also factor in the company's market leadership position with domestic sales volume of over 92.31 million metric tonne (MMT) and market share of ~31% in FY24 (refers to April 01 to March 31) in refining and ~42% in retail. Strong operational profile remained backed by largest oil refining capacity in the country at 80.75 MMT (consolidated), presence across hydrocarbon value chain, broad based marketing and distribution network, and superior processing capabilities of its refineries as reflected by high Nelson Complexity Index (NCI) in many of its refineries. Ratings also derive strength from the company's exceptional financial performance in FY24 marked by high gross refining margin (GRM) of USD 12.05 per barrel (bbl) (USD 19.52 per barrel in FY23), highest ever throughput of 84.95 MMT (83.72 MMT in FY23) and improved marketing margin. Financial performance has moderated in Q1FY25 from exceptionally high levels of FY24, due to moderation in GRM and marketing margins. GRM reduced with moderation in product cracks and lower discount on Russian crude oil and marketing margin impacted due to reduction in retail price of petrol and diesel by ₹2/litre implemented from mid-March 2024. Overall, the performance is likely to remain healthy in the medium term.

Strong accruals in FY24 enabled the company to undertake sizeable capex along with reducing its debt leading to improvement in its financial risk profile and liquidity position.

However, rating strengths are tempered by inherent vulnerability of the company's profits to volatility in crack spreads and foreign exchange fluctuations, apart from project implementation risks due to sizeable capital expenditure (capex) plans and susceptibility to inherent regulatory risks.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors:

- Not applicable

Negative factors

- Dilution in GOI's stake in IOCL to less than 50% or reduction in its strategic importance to GOI.
- Sustained weakening of operational performance, marked by lower throughputs and GRMs.

Analytical Approach: Consolidated

For arriving at the ratings, CARE Ratings has considered IOCL's consolidated financials, owing to the strong financial and operational linkages between parent and subsidiaries. Ratings have been notched-up for GoI ownership considering high strategic and economic importance of IOCL to GoI. The list of companies considered in the consolidation is placed at **Annexure-6**.

Outlook: Stable

The 'Stable' outlook on the ratings reflect that the entity is likely to benefit from its dominant position and presence across the hydrocarbon value chain underpinning its strategic importance to GoI which should help it to maintain its strong credit profile.

Detailed description of key rating drivers:

Key strengths

Strong parentage and strategic importance to the GoI

IOCL is majority owned by GoI (51.50% as on March 31, 2024) and is strategically important to GoI for achieving its socio-economic goals. Oil marketing companies (OMCs) have a dominant position in the domestic market for key petroleum products

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

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 absorbing a good portion of their sales-related under-recoveries through subsidies. In FY23, the GoI supported IOCL through a one-time grant of ₹10,801 crore for under-recoveries suffered by the company in its marketing segment**.** Going forward, GoI's support to IOCL is expected to continue considering its strategic importance.

Leadership position and presence across hydrocarbon value chain

IOCL has presence across the hydrocarbon value chain, which includes exploration, refining, marketing, transportation (pipeline) and petrochemical, with dominant market position in most of the segments. Having integrated operations reduces underperformance risk in a particular segment.

At a consolidated level, IOCL has 11 major refineries in North, South, East and West regions of the country. Refining capacity of 80.75 million metric tonne per annuum makes it the largest player among oil refining companies in India. IOCL is also India's largest OMC, with a domestic sales volume of over 92.31 MMT in FY24 with a market share of ~42%.

With 37,472 retail outlets as on March 31, 2024 (36,285 retail outlets as on March 31, 2023), IOCL has the largest marketing set up in the country for selling petroleum products. In LPG as well, IOCL has a market share of 44.70% in FY24 and a network of over 12,880 distributors and 98 LPG bottling plants across the country with a domestic customer base of ~15.20 crore connections. IOCL also has presence in the upstream exploration and production business, with ownership of 16 domestic and 11 overseas assets, of which, eight are currently producing.

Established network of pipeline

IOCL operates a network of over 19,700 km long crude oil, petroleum product and gas pipelines with a throughput capacity of 124.4 MMT per annum of oil and 48.73 million metric standard cubic meters of gas per day (MMSCMD). IOCL's liquid pipelines achieved a throughput of 95.80 MMT (95.04 MMT in FY23), comprising 51.81 MMT of crude and 43.99 MMT of petroleum products in FY24. Gas pipelines witnessed throughput of 3717 MMSCM (3077 MMSCM FY23) in FY24. These cross-country pipelines are cost-effective and energy-efficient mode for transportation of crude oil and petroleum products.

Steady operational performance in last few fiscals despite moderation in Q1FY25

The capacity utilisation for the company's refineries (overall) has consistently remained high and above 95% in the last three fiscals (100% in the last two years ended FY24), indicating strong operating efficiency. In terms of nelson complexity index (NCI), its refineries have few of the highest NCI among the public sector refineries in India, which enables them to process heavy oil and oil of APIs with high quality.

In FY24, GRM reduced to USD 12.05/ bbl from USD 19.52/ bbl in FY23 (while remaining slightly better than USD 11.25/ bbl in FY22), mainly considering narrowing discount on Russian basket of crude and a reduction in product cracks. Historically, IOCL's refining margins have been reasonably higher than the benchmark GRM. Furthermore, IOCL has higher distillate yield at 79.30% in FY24, when compared to average among PSU refineries.

IOCL's GRM moderated to USD 2.84/bbl in Q1FY25 mainly due to shutdown of Paradeep plant for maintenance, and inventory loss of USD 3.55/bbl. Marketing margin moderated considering reduced retail price of petrol and diesel by ₹2/litre implemented from mid-March 2024. This led to moderation in overall PBILDT margin in Q1FY25. Going forward, GRM is expected to remain low in FY25 with moderation in product cracks and lower discount on Russian crude oil, however, reduced crude oil prices would augur well for its marketing margin in retail operations.

Comfortable financial risk profile

IOCL's overall financial risk profile remained comfortable marked by overall gearing below 1.2x in the last three fiscals ended FY24. Strong accruals in FY24 enabled the company to undertake sizeable capex and reduce its debt leading to improvement in its financial risk profile and liquidity position. Overall gearing ratio improved to 0.72x as on March 31, 2024, as against 1.07x as on March 31, 2023, due to higher accretion of profit to reserves due to healthy profits earned and reduced debt level. Further, debt coverage indicators also improved significantly marked by total debt to gross cash accruals (TD/GCA) of 2.20x as on March 31, 2024, against 5.65x as on March 31, 2023, owing to funding of capex largely from internal accruals. Going forward, despite availing debt for its capex plans, overall gearing is expected to remain below unity from strong net worth base and scheduled repayment of debt.

Liquidity: Strong

Being a GOI promoted entity, IOCL enjoys strong financial flexibility. Access to low-cost funds from domestic and overseas market further enhances its financial flexibility. As on March 31, 2024, IOCL had ₹13,649 crore cash and liquid investments (including

~₹9,530 crore in Quoted Govt Securities and cash and bank balance of ₹4,119 crore (including earmarked balance of ₹410 crore). IOCL has non-current investments in equity shares of ₹33,836 crore (having majorly quoted equity shares of ₹26,453 crore in ONGC (CARE AAA; Stable/ CARE A1+), ₹2,957 crore in GAIL (India) Limited and ₹3,211 crore in Oil India Limited (rated CARE AAA; Stable/ CARE A1+), which provides additional comfort to its liquidity.

The company has undrawn working capital limits of ~₹43,100 crore and its internal accruals are expected to be sufficient to meet its debt repayments obligations of ~₹17,000-20,000 crore per annum in the next three years. For capex requirement, the company plans to avail debt on need basis. IOCL also derives strong financial flexibility from its parentage of GoI, apart from its strong market position, which provides it easy access to funds at attractive rates and aids funding of its capex partially through debt on need basis. The company generated healthy cash flow from operations of ₹68,765 crore in FY24 and its operating cycle has remained comfortable at below 46 days in the last three fiscals ended FY24.

Key weaknesses

Sizeable capex plans

IOCL is executing projects of varying scales with cumulative project cost of over ₹1.1-1.5 Lakh crore, to be implemented in the next four-five years, despite parts of this capex being non-committed in nature.
In FY25, the company is expected to incur capex of ~₹28,000-30,000 crore at a consolidated level, of which, majority is likely to be towards enhancing capacity of its refineries (the company has plans for increasing refining capacity of Panipat Refinery, Gujarat Refinery and Barauni Refinery, which is likely to cost ~₹63,500 crore and setup of greenfield refinery in Cauvery Basin Refinery and Petrochemicals Limited of 9 MMT per annum (MMTPA) at a cost of ₹38,830 crore). The balance capex is largely towards expansion in petrochemical setup and setting up of additional renewable power capacity with estimated cost outlay of ₹5000 crore.

Exposure to volatility in crack spreads and foreign exchange rates

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, policies of the Organization of the Petroleum Exporting Countries (OPEC), foreign exchange rates, among others. These factors have translated to high level of volatility in oil prices and cracks. Being an oil refining and marketing company, pricing of major petroleum products naturally hedge crude purchase prices to a large extent. The company's profitability is exposed to volatility of crack spreads, and foreign exchange fluctuations. IOCL's profitability was impacted in FY23 due to the stagnant retail prices against high crude prices. Even though average crude oil prices reduced in FY24 from FY23, retail prices were unchanged since April 2022, resulting in a higher marketing margin in FY24.

Regulatory risk

GoI's policy and decisions with respect to finished product pricing, subsidy sharing, windfall taxes, duties, cess, and dividend payments can have a significant bearing on IOCL's profitability, cash flows and liquidity position. In elevated prices of crude, GoI may choose to pass on fiscal burden by sharing of profits of PSUs through higher fiscal levies, higher dividend declaration, or providing discounts to OMCs, which has the potential to impact IOCL's income and accruals. Refiners are required to comply with increasingly stringent product specifications (such as equivalent of Bharat Stage VI) as stipulated by regulators.

Industry prospects

In FY24, India's oil refining companies processed 261.55 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). This high-capacity utilisation is primarily attributed to robust domestic and export demand for key refined products. The availability of relatively cost-competitive Russian crude, a substantial post-pandemic surge in refined product demand, and geopolitical disruptions leading to higher demand for Indian refined products from European nations have collectively contributed to Indian refiners consistently achieving significantly higher GRMs than the benchmark Singapore GRMs in the last four years ended FY24. This led to improving credit profile of Indian refiners. After enjoying exceptionally high GRM in FY23 at an average of USD 16-18/bbl, the GRM of Indian Refiners moderated to an average of USD 10-12/bbl in FY24 from a narrowing discount on Russian crude and reduced product cracks, however, continued to remain reasonably higher than the benchmark Singapore GRM of USD 6.7/bbl for FY24 (USD 10.77/bbl for FY23).

Despite moderation in GRM in FY24, operating profit of oil players jumped multi-fold in FY24 over FY23 due to higher marketing margin. Even though average crude oil prices were reduced in FY24 from FY23, retail price of Motor Spirit (MS) / High-Speed Diesel (HSD) was unchanged since April 2022, which resulted in a higher marketing margin in FY24. The decision of Russia and other OPEC+ nations to extend voluntary cut in crude oil production by 2.2 million barrels per day till mid-2024, geopolitical factors including the Middle East disturbance and sluggish global demand prospects, resulted in decline in crude oil prices. Going forward, GRM of Indian refiners is expected to moderate in FY25 and remain in the range of USD 6-8/bbl with a reduction in product cracks, especially for diesel and a lower discount on Russian crude. Marketing margin is also expected to moderate due to reduction in retail price of petrol and diesel by ₹2/litre implemented from mid-March 2024.

Environment, social, and governance (ESG) risks

IOCL has been increasing its presence in alternative/renewable energy space with increasing capacity and infrastructure. IOCL has renewable energy (RE) portfolio of 247 MW as of March 2024, which includes 168 MW of wind and 79 MW of Solar. It is targeting to increase its RE portfolio towards meeting net zero commitments. The company has set up 9059 EV charging stations and 91 battery swapping stations at retail outlets across the country as of March 2024, and has plan of setting over 10,000 EV charging stations in foreseeable future. While the company has faced (at a group level) many oil leakage/spill issues over the years, the company has been making efforts to curb these incidents through technological advancements and other measures.
The company has a good track record of customer grievance redressal. Gender diversity remained in line with industry peers with women employees forming ~9% of the total workforce in fiscal 2024. The company had total CSR spent of ₹457.71 crore in FY24 having larger spent on Health & Sanitation and Promotion of National Heritage, Art and Culture.
IOCL's composition of the Board of Directors was not in conformity with Listing Regulations, Companies Act, 2013 due to absence of adequate number of Independent Directors on the Board of the Company (in April 01, 2023, to May 02, 2023, and January 16, 2024, to March 31, 2024) and absence of at least one-Woman Independent Director (per the annual report for 2023-24). However, the company has no direct control towards appointment of these directors and the same are appointed through Government (by the concerned Administrative Ministries/Departments).
IOCL has healthy investor grievance redressal and extensive disclosures. The board also has a Government Nominated Director. In FY24, no whistle blower complaints were received by the company.

Applicable criteria

Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Financial Ratios – Non financial Sector
Short Term Instruments
Consolidation
Factoring Linkages Government Support

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Energy	Oil, gas & consumable fuels	Petroleum products	Refineries & marketing

A Maharatna PSU, IOCL was incorporated on June 30, 1959, as Indian Oil Company Limited. The company is the largest oil refining and marketing PSU of India. As on March 31, 2024, GoI held 51.50% of overall stake in the company. IOCL has its presence across the hydrocarbon value chain ranging from exploration and production (E&P), refining, pipeline transportation to marketing of petroleum products and petrochemicals.
IOCL's refining capacity is a substantial part of India's total capability, with 11 refineries under its management which contributes to ~31% of India's total refining capacity. It operates at a refining capacity of 80.75 MMTPA including capacity of 10.50 MMTPA in its subsidiary Chennai Petroleum Corporation Limited (CPCL). IOCL has an extensive pipeline network that spans a total of 19,734 km (consisting of 5,822 kms of crude oil pipelines, 12,581 kms of Petroleum Oil Products pipelines and 1,331 kms of Natural Gas pipeline as on March 31, 2024). It has 37,472 retail outlets and 12,880 LPG distributors. The petrochemical division (having capacity of 4.4 million MTPA) complements the company's portfolio, producing a variety of chemicals used in industries such as textiles, plastics, and pharmaceuticals.
IOCL operates 246.94 MW of renewable energy, comprising 167.60 MW of wind capacity and 79.34 MW of solar photovoltaic capacity as of March 31, 2024, and 31 commissioned CBG plants.

Consolidated Financials

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	Q1FY25 (UA)
Total operating income	830,364	775,555	219,864
PBILDT	20,264	75,112	9,920
PAT	11,704	43,161	3,723
Overall gearing (times)	1.07	0.72	NA
Interest coverage (times)	2.67	9.53	4.77

A: Audited UA: Unaudited; NA: Not Available; Note: these are latest available financial results,
Financials are classified as per CARE Ratings Standards

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 instruments/facilities

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 and Rating Outlook
Fund-based - ST-Line of Credit		-	-	-	44467.00	CARE A1+
Fund-based-LT/ST		-	-	-	533.00	CARE AAA; Stable / CARE A1+
Non-fund-based-LT/ST		-	-	-	12750.00	CARE AAA; Stable / CARE A1+

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 - ST-Line of Credit	ST	44467.00	CARE A1+				
2	Fund-based-LT/ST	LT/ST	533.00	CARE AAA; Stable / CARE A1+				
3	Non-fund-based-LT/ST	LT/ST	12750.00	CARE AAA; Stable / CARE A1+				

ST: Short term; LT/ST: Long term/Short 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 - ST-Line of Credit	Simple
2	Fund-based-LT/ST	Simple
3	Non-fund-based-LT/ST	Simple

Annexure-5: Lender details

To view lender wise details of bank facilities please click here

Annexure-6: List of entities consolidated as on March 31, 2024

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1	Chennai Petroleum Corporation Limited	Full	Subsidiary
2	Indian Oil (Mauritius Limited)	Full	Subsidiary
3	Lanka IOC PLC	Full	Subsidiary
4	IOC Middle East FZE	Full	Subsidiary
5	IOC Sweden AB	Full	Subsidiary
6	IOCL (USA) Inc	Full	Subsidiary
7	IndOil Global BV	Full	Subsidiary
8	IOCL Singapore Pte Limited	Full	Subsidiary
9	IOC Global Capital Management IFSC Limited	Full	Subsidiary
10	Petronet LNG Limited	Proportionate	Associates
11	Avi-Oil India Private Limited	Proportionate	Associates
12	Petronet VK Limited	Proportionate	Associates
13	IndianOil Adani Ventures Limited	Proportionate	Joint venture
14	Lubrizol India Private Limited	Proportionate	Joint venture
15	IndianOil Petronas Private Limited	Proportionate	Joint venture
16	Green Gas Limited	Proportionate	Joint venture
17	IndianOil Skytanking Private Limited	Proportionate	Joint venture
18	Suntera Nigeria 205 Limited	Proportionate	Joint venture
19	Delhi Aviation Fuel Facility Private Limited	Proportionate	Joint venture
20	Indian Synthetic Rubber Private Limited	Proportionate	Joint venture
21	NPCIL IndianOil Nuclear Energy Corporation Limited	Proportionate	Joint venture
22	GSPL India Transco Limited	Proportionate	Joint venture
23	GSPL India Gasnet Limited	Proportionate	Joint venture
24	IndianOil Adani Gas Private Limited	Proportionate	Joint venture
25	Mumbai Aviation Fuel Farm Facility Private Limited	Proportionate	Joint venture
26	Kochi Salem Pipelines Private Limited	Proportionate	Joint venture
27	IndianOil LNG Private Limited	Proportionate	Joint venture
28	Hindustan Urvarak and Rasayan Limited	Proportionate	Joint venture
29	Ratnagiri Refinery & Petrochemicals Limited	Proportionate	Joint venture
30	Indradhanush Gas Grid Limited·	Proportionate	Joint venture
31	IHB Limited	Proportionate	Joint venture
32	IndianOil Total Private Limited	Proportionate	Joint venture
33	IOC Phinergy Private Limited	Proportionate	Joint venture
34	Paradeep Plastic Park Limited	Proportionate	Joint venture
35	Cauvery Basin Refinery and Petrochemicals Limited	Proportionate	Joint venture
36	IndianOil NTPC Green Energy Private Limited	Proportionate	Joint venture
37	GH4 India Private Limited	Proportionate	Joint venture

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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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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