

Bharat Petroleum Corporation Limited

February 21, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Non-Convertible Debentures	2,000.00	CARE AAA (CWD) (Triple A) (Under Credit watch with Developing Implications)	Assigned
Non-Convertible Debentures	500.00	CARE AAA (CWD) (Triple A) (Under Credit watch with Developing Implications)	Continues to be on Credit watch with Developing Implications
Non-Convertible Debentures	504.80	CARE AAA (CWD) (Triple A) (Under Credit watch with Developing Implications)	Continues to be on Credit watch with Developing Implications
Total Long Term Instruments	3,004.80 (Rs. Three Thousand Four Crore and Eighty Lakhs Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale and Key Rating Drivers:

The ratings assigned to the debt instruments of Bharat Petroleum Corporation Limited (BPCL) derives strength from strong parentage of Government of India (GoI), continuation of the company's strategic importance to GoI and support from GoI till the strategic divestment of GoI stake takes place. The ratings further derive comfort from the company's strong operating profile backed by dominant market position supported by sizeable refining capacity and established marketing and distribution network, GoI's policy measures for reducing oil under-recoveries of Oil Marketing Companies (OMCs) and the company's healthy financial risk profile marked by comfortable capital structure and debt metrics and adequate liquidity position. The rating strengths are tempered by vulnerability of company's profits to volatility in crack spreads and crude oil prices, project implementation risk due to sizeable capital expenditure, lack of a transparent policy mechanism regarding absorption of under-recoveries for LPG and kerosene, as well as increasing competition among the PSU peers as well as from private players and competitive industry scenario.

The ratings continue to be 'Under Credit Watch with Developing Implications' on account of announcement of Government of India's entire stake sale in BPCL along with transfer of management control to a strategic player. CARE shall continue to monitor the developments in this regard and will take appropriate rating action depending upon the impact of divestment on BPCL's credit profile.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade: Not Applicable

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

- Credit profile of new promoter being weaker than the current promoter
- Sustained weakening of operating performance marked by lower throughputs and GRMs
- Deterioration in overall gearing beyond 1.50x

Detailed description of the key rating drivers

Key Rating Strengths

Strong parentage, strategic importance to GOI and demonstrated support: BPCL is GoI owned (52.98% as on March 31, 2021) and is of strategic importance to GoI for achievement of its socio-economic goals. Oil Marketing Companies (OMCs) have a dominant position in the domestic market for key petroleum products such as High-Speed Diesel (HSD), Motor Spirit (MS), Superior Kerosene Oil and Liquefied Petroleum Gas (LPG). GoI consistently supports OMCs by absorbing a good portion of the sales-related under-recoveries through subsidies. Also, the Government directs upstream companies to sell to OMCs at a discount in order to compensate for the under recoveries on regulated products. However, with the announcement of stake sale by GoI, the credit profile as well as importance/ support from the strategic buyer (when identified) to BPCL will be key rating sensitivity.

Integrated oil refining and marketing company: BPCL has its presence in both upstream and downstream segments. It is India's second-largest OMC with domestic sales volume of over 39.05 MMT in FY21 and is India's third-largest refining company with a total refining capacity of 35.30 MMT (on consolidated basis), representing a sizable proportion in India's total refining capacity. BPCL, through its subsidiary Bharat Petro Resources Limited (BPRL), has presence in upstream exploration and production business with ownership of 20 Blocks in 7 countries. As on March 31, 2021, with 18,637 retail outlets, BPCL has second largest nationwide marketing set up in the country for the sale of petroleum products.

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

Strong operational profile: BPCL (along with its Subsidiaries/Joint Venture) has three major refineries located at Mumbai, Kochi and Bina. Mumbai refinery has a capacity of 12 MMTPA and Kochi has a current capacity of 15.5 MMTPA. Bharat Oman Refineries Limited has 7.8 MMTPA refinery at Bina in Madhya Pradesh, thereby taking total consolidated capacity of 35.3 MMTPA and standalone capacity of 27.5 MMTPA as on March 31, 2021. The capacity utilization for the refineries of the company is consistently high, indicating strong operating efficiency. The refineries (Mumbai & Kochi) are located near the coast, which provides an advantage to the company in saving transportation costs. BPCL, during FY21 reported GRM (including inventory gain) of \$4.06/ bbl as compared to \$2.50/bbl in FY20. However, Core GRM declined to \$1.8/bbl as against \$4.3/bbl in FY20, mainly on account of weak product cracks, which improved Q-o-Q during the year. Product cracks moderated due to weak demand for petroleum products owing to pandemic led economic slowdown. However, with gradual opening up of economy, the cracks have improved. In 9MFY22, on a standalone basis BPCL has reported higher GRM of \$6.78/bbl as compared to \$2.90/bbl in 9MFY21 on the back of recovery in cracks and inventory gains.

Comfortable financial risk profile: BPCL's financial risk profile is marked by comfortable capital structure and debt credit metrics. On a consolidated basis, the debt-equity ratio improved from 1.25x as on March 31, 2020 to 0.82x as on March 31, 2021 whereas overall gearing improved from 1.71x as on March 31, 2020 to 0.90x as on March 31, 2021. The improvement was on account of higher profits generated during the year owing to profit from stake sale in NRL, sale of investments and lower operational cost incurred during the year. Also, both long-term and short-term debt declined in FY21. However, the overall gearing moderated to 1.37x as on September 30, 2021, due to higher short-term debt availed by the company to keep up with rising crude prices. Total debt to Gross Cash Accruals improved significantly to 2.19 years in FY21 from 8.47 years in FY20, owing to higher accruals generated during the year and lower debt. Interest coverage ratio improved significantly to 13.66x in FY21 from 4.05x in FY20, reason being sharp decline in interest cost as company availed fund at very low rate when compared to previous years and higher PBILDT generated. Moreover, interest coverage though moderated from FY21 level yet stood healthy at 7.81x in 9MFY22.

Key Rating Weaknesses

Sizeable capital expenditure planned: BPCL on a consolidated basis intends to spend around Rs.12,000 crore in FY22, of which it would spend around Rs.3,000 crore on refinery, Rs.4,000 crore on marketing, Rs.1,000 crore on petchem project in Kerala, Rs.1800 crore on other projects and remaining in equity investments. The capital expenditure shall be funded by debt of around Rs.4,000 crore and remaining through internal accruals. Timely execution of projects within the estimated cost parameters remains the key monitorable.

Rate rationalization and extent of under-recovery compensation from GoI: With the deregulation of petrol prices in June 2010 and diesel prices in September 2014, under recoveries have reduced to a large extent. Even the prices for LPG and Kerosene are being gradually deregulated, which could further reduce the burden of under recoveries. However, in absence of any institutionalized mechanism for sharing of under-recoveries in the oil-marketing sector, BPCL's credit risk profile remains sensitive to the extent of GoI's timely support for under-recoveries.

Exposure to volatility of crude prices, crack spreads and foreign exchange rates: The oil prices and crack spreads are a function of many dynamic markets and fundamental factors such as global demand supply dynamics, geo-political stability in countries with oil reserves, OPEC policies, exchange rates, etc. These factors have translated in high level of volatility in oil prices. The company does not hedge its inventory exposure; however, it hedges product cracks, but the hedging is around 20-30% only. Thus, the company's profitability is exposed to volatility of crude prices and crack spreads as well as foreign exchange fluctuations.

Industry prospects

India continues to remain one of the fastest growing markets in terms of demand for petroleum products, with consumption growing at a CAGR of 3% between FY16-FY20 to reach 214.13 million metric tonnes (MMTs) before witnessing a sharp decline to 194.3 MMTs in FY21 due to the COVID-19 pandemic. Amid resurgent demand, the country's aggregate consumption of petroleum products has increased by 5.68% to 130 MMTs during April-November 2021 from 123 MMTs in the corresponding period of the last fiscal which was severely impacted by the COVID-19 induced lockdowns and restrictions. India's estimated demand for petroleum products is pegged at nearly 201 MMTs during FY22, and therefore, it will remain below the pre-pandemic levels amid lower consumption of aviation fuel, diesel, and pet coke. Going forward, key demand drivers for growth in consumption of petroleum products is expected to be increasing gas consumption amid rising penetration of city gas distribution and motor spirit demand, while diesel consumption is expected to grow at the slowest pace due to stricter emission norms for diesel vehicles.

Liquidity- Strong

BPCL derives strong financial flexibility given its size and strategic importance to and demonstrated support from GOI leading to strong fund raising/refinancing ability. NRL stake sale, sale proceeds from shares of BPCL investment trust and strong cash accruals had led to higher cash balance as on March 31, 2021. The company had cash and bank balance of nearly Rs.4,500 crore as on December 31, 2021. The company has capex outlay of nearly Rs.12000 crore during FY22 which is being funded through a mix of debt and internal accruals.

Analytical approach: Consolidated. For arriving at the ratings, CARE has considered consolidated financials of BPCL owing to financial and operational linkages and fungible cash flows between the parent and subsidiaries/ joint ventures.

Applicable criteria

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

[CARE's policy on default recognition](#)

[Criteria for Short term Instruments](#)

[Rating Methodology: Notching by factoring Linkages with Government](#)

[Rating Methodology – Manufacturing Companies](#)

[Financial Ratios – Non-financial Sector](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

[Rating Methodology: Consolidation](#)

About the Company:

BPCL, a GoI undertaking (52.98% holding as on March 31, 2021) & a Fortune 500 company, was originally incorporated as Bharat-Shell Refineries Limited (BSRL) on November 03, 1952, by Shell Petroleum Company Limited and subsequently in 1977, the name was changed to BPCL. BPCL is an integrated oil refining and marketing company. It is India's second-largest Oil Marketing Company (OMC) with domestic sales volume of over 38.74 MMT (million metric tonne) and market share of 22% in FY21. It is India's third-largest refining company with a total refining capacity of 35.30 MMT (including Bina Refinery), representing around 14.27% of India's total refining capacity. With around 18,637 retail outlets as on March 31, 2021, BPCL has second-largest marketing set up in the country for the sale of petroleum products. BPCL through its wholly owned subsidiary Bharat Petro Resources Limited (BPRL) has Participating Interest (PI) in twenty blocks spread across seven countries. Apart from stakes in twelve blocks in India, BPRL also has Participating Interest in 11 blocks in Mozambique, Brazil, Indonesia, East Timor, Australia, and Abu Dhabi.

Brief Consolidated Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	9MFY22 (UA)
Total operating income	2,87,530	2,32,416	2,44,378
PBILDT	10,647	23,549	14,880
PAT	3,663	17,320	8,879
Overall gearing (times)	1.71	0.90	1.37*
Interest coverage (times)	4.05	13.66	7.81

*as on September 30, 2021

Status of non-cooperation with previous CRA: NA

Any other information: NA

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

Covenants of rated instrument / facility: 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 (Rs. crore)	Rating assigned along with Rating Outlook
Debentures-Non Convertible Debentures					500.00	CARE AAA (CWD)
Debentures-Non Convertible Debentures					504.80	CARE AAA (CWD)
Debentures-Non Convertible Debentures				-	2000.00	CARE AAA (CWD)

*Proposed NCDs

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	Debentures-Non Convertible Debentures	LT	1000.00	CARE AAA (CWD)	1)CARE AAA (CWD) (25-Jun-21)	1)CARE AAA (CWD) (26-Jun-20)	1)CARE AAA (CWD) (06-Dec-19) 2)CARE AAA; Stable (28-Nov-19) 3)CARE AAA; Stable (27-Sep-19)	1)CARE AAA; Stable (03-Oct-18)
2	Debentures-Non Convertible Debentures	LT	750.00	CARE AAA (CWD)	1)CARE AAA (CWD) (25-Jun-21)	1)CARE AAA (CWD) (26-Jun-20)	1)CARE AAA (CWD) (06-Dec-19) 2)CARE AAA; Stable (28-Nov-19) 3)CARE AAA; Stable (27-Sep-19)	1)CARE AAA; Stable (27-Feb-19) 2)CARE AAA; Stable (03-Oct-18)
3	Commercial Paper-Commercial Paper (Standalone)	ST	5000.00	CARE A1+	1)CARE A1+ (25-Jun-21)	1)CARE A1+ (29-Jul-20) 2)CARE A1+ (26-Jun-20) 3)CARE A1+ (23-Apr-20) 4)CARE A1+ (07-Apr-20)	1)CARE A1+ (23-Mar-20) 2)CARE A1+ (06-Dec-19) 3)CARE A1+ (28-Nov-19) 4)CARE A1+ (05-Nov-19) 5)CARE A1+ (27-Sep-19)	1)CARE A1+ (03-Oct-18) 2)CARE A1+ (27-Jul-18)
4	Debentures-Non Convertible Debentures	LT	500.00	CARE AAA (CWD)	1)CARE AAA (CWD) (25-Jun-21)	1)CARE AAA (CWD) (26-Jun-20)	1)CARE AAA (CWD) (06-Dec-19) 2)CARE AAA; Stable (28-Nov-19) 3)CARE AAA; Stable (27-Sep-19)	1)CARE AAA; Stable (27-Feb-19)
5	Debentures-Non Convertible Debentures	LT	550.00	CARE AAA (CWD)	1)CARE AAA (CWD) (25-Jun-21)	1)CARE AAA (CWD) (26-Jun-20)	1)CARE AAA (CWD) (06-Dec-19) 2)CARE AAA; Stable (28-Nov-19) 3)CARE AAA; Stable (27-Sep-19)	-

6	Debentures-Non Convertible Debentures	LT	1995.20	CARE AAA (CWD)	1)CARE AAA (CWD) (25-Jun-21)	1)CARE AAA (CWD) (26-Jun-20)	-	-
7	Commercial Paper-Commercial Paper (Standalone)	ST	6500.00	CARE A1+	1)CARE A1+ (25-Jun-21)	1)CARE A1+ (29-Jul-20) 2)CARE A1+ (26-Jun-20)	-	-
8	Debentures-Non Convertible Debentures	LT	504.80	CARE AAA (CWD)	1)CARE AAA (CWD) (25-Jun-21)	-	-	-
9	Debentures-Non Convertible Debentures	LT	2000.00	CARE AAA (CWD)				

* Long Term / Short Term

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

Name of the Instrument	Detailed explanation
A. Financial covenants	NA
I	
Ii	
B. Non financial covenants	NA
I	
Ii	

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

Sr. No	Name of instrument	Complexity level
1	Debentures-Non Convertible Debentures	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 instrument: CARE Ratings Ltd. 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.

Contact us

Media Contact

Name: Mradul Mishra
Contact no.: +91-22-6754 3573
Email ID: mradul.mishra@careedge.in

Analyst Contact

Name: Ajay Kumar Dhaka
Contact no.: 8826868795
Email ID: ajay.dhaka@careedge.in

Relationship Contact

Name: **Saikat Roy**
Contact no.: +91-98209 98779
Email ID: saikat.roy@careedge.in

About CARE Ratings Limited:

Established in 1993, CARE Ratings Ltd. is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India (SEBI), it has also been acknowledged as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). With an equitable position in the Indian capital market, CARE Ratings Limited provides a wide array of credit rating services that help corporates to raise capital and enable investors to make informed decisions backed by knowledge and assessment provided by the company.

With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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